

THE CHINESE MONETARY SYSTEM

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Thesis

THE CHINESE MONETARY SYSTEM

by

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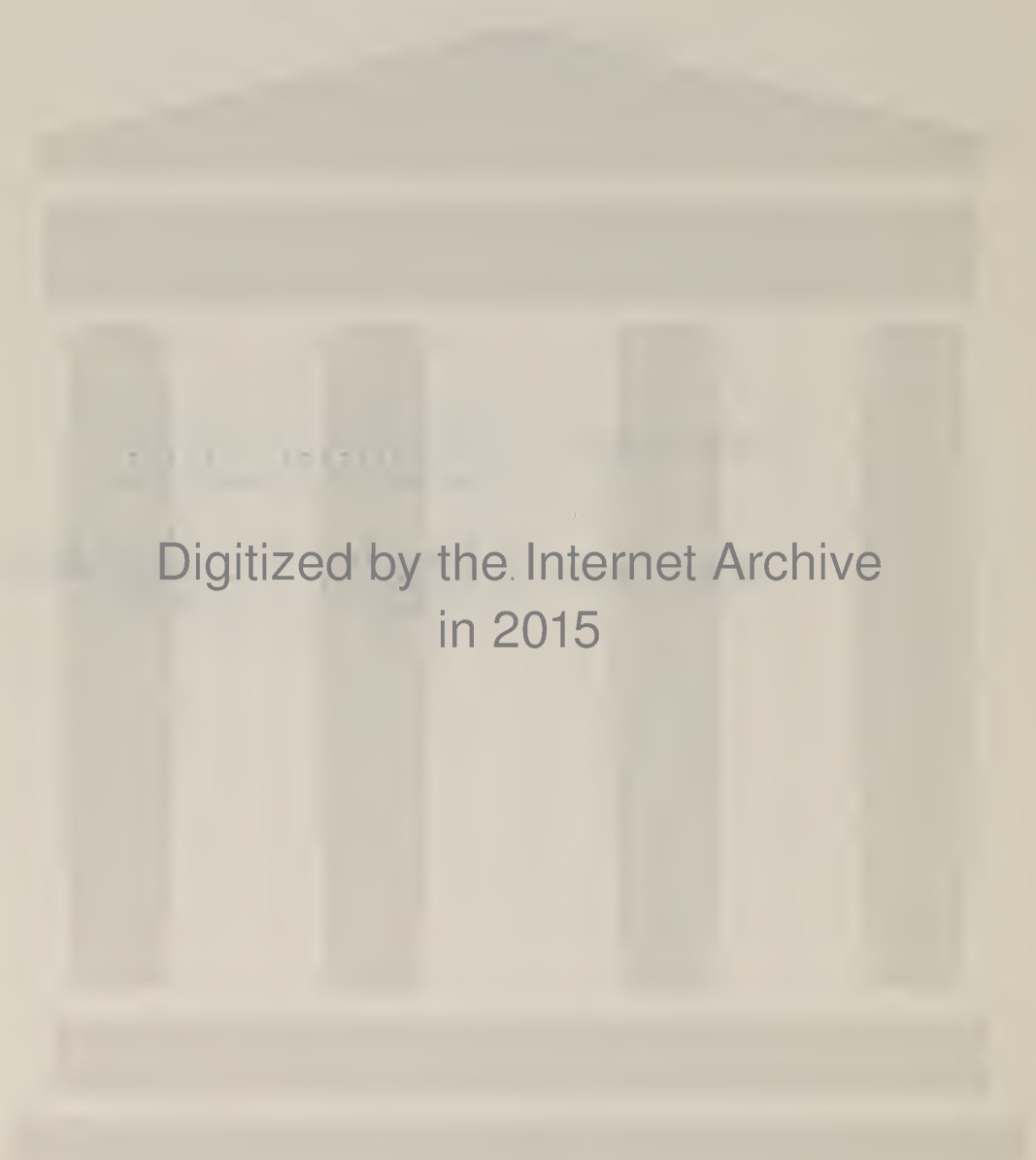
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ABSTRACT

PREFACE

The study of the Chinese monetary system has been to me both an awakening and an interesting study. Before working on this subject, I was afraid that I could hardly get the reference books.

This thesis covers the development of China's monetary system up to the Sino-Japanese war in 1937. I have two purposes in mind:

- (1) Research into the historical evolution of monetary units.
- (2) Tracing of remote causes for the introduction of uniform bank-notes.

To Professors C. P. Huse and M. S. Dalano, my advisers in this work, I wish to deeply express my gratitude for their suggestions and kind assistance.

Kung-Chin Chen

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Chapter I

HISTORICAL DEVELOPMENT OF MONETARY SYSTEM

China's civilization as we know, dates from pre-historic time. With the Chou dynasty, starting about 1122 B.C., we begin to touch upon the true history of the Chinese people. In this prosperous flourishing period, the Chinese social and political institutions became fixed and a feudal system grew up. Commerce, art, religion and philosophy flourished. The iron weapons and implements came into use which have greatly influenced the monetary system in early China.

Statements made concerning the development of currency in the pre-historic period are largely a matter of conjecture. Before the Chou dynasty various media of exchange existed in China; nearly every possible material is recorded as the circulating currency, such as inscribed skins, tortoise shells, axes, spades, bells, armlets, rings and rolls of silks.¹ Commodity money is supposed to have been in circulation even as early as 2,000 B.C. and during 1,500 and 1,000 B.C., silver and copper money was in circulation in addition to cowrie shells, gold seems to have been considered as currency only from the eleventh to the third century B.C.² Money did not circulate as the medium of exchange until about 1032 B.C. We hear at that

1. Lee, F. E., Currency, Banking and Finance in China, U. S. Department of Commerce, Washington, 1926, p. 27.

2. Morse, H. B., The Trade and Administration of China, Longmans, Green & Co., 1920, p. 136.

time the earliest marked legislation on coinage, the sovereign having established certain regulations for currency, and enacted that metallic pieces should be exchangeable according to their weight.³ This was the beginning of the real money and currency used in China. There is no fixed standard of currency, in the broad sense of the word, within China. The masses in the interior provinces, practically all through their lives had never used paper money and copper coins. Although on the other hand, there was no law to define the term of "currency" as applicable to China, we have reason to believe that the copper coin as widely used, actually was the real currency of the country. Gold and silver had been long used as the medium of currency in other parts of the world, but did not take part in the main currency system of China until the Republic era, when the currency system was gradually reformed and changed by the new government.

(A) Copper

(1) In Ancient Time

Counting bronze as a form of copper, we can say that copper is the metal which for thousands of years has formed the basis of China's principal currency system. The original shapes for monetary units were formed after primitive articles of husbandry, notably the spade, the bell and the knife. These were at first uninscribed barter money and turned, after having

3. Lee, F. E., op. cit., p. 28.

circulated in that state for centuries, into inscribed money.

The investigation concerning the earliest attempts on the part of China to introduce metallic currency, is rendered difficult by lack of authoritative evidence. The only available sources of information on this particular subject are the old Chinese Chronicles. "According to the Shih Chi of historical records of Ssu-mu Ch'ien it is stated that the media of exchange of the Emperor Shun (2255 B.C.) and of the Hsia Dynasty (2205--1818 B.C.) were three kinds of metal --- yellow (gold), white (silver) and red (copper). Copper money is said to have then existed in three categories namely Chien, Pu and Dao"⁴

According to Terrien De Lacouperie, the first attempt to introduce metallic currency in ancient China dates back to about 1100 B.C. In the Tsien Han Shu (the annals of the former Han Dynasty) the historical statement is contained that "gold was in square inch, weighing one kin, bronze money was round, tongue like and in squares (or ingots) and these weights were ascertained by Tchus"⁵. So that from these statements it may be said that the first Chinese round bronze coins were produced during the Chou Dynasty, the latter existed from 1122 to 255 B.C. The first round bronze coin in China was about an inch in diameter and had a square hole in the center. It was origin-

4. Lochart, Stewart., The Stewart Lochart Collection of Chinese Coins, 1915, p. 21.

5. Lacouperie, Terrien de., Catalogue of Chinese Coins, First seventh century B.C. to A.D. 621, p. 35.

ally the prerogative of the government to cast copper cash, but on certain occasions town councils, guilds and other corporations, were permitted to carry on minting as a private enterprise. Furthermore, comparatively speaking, the beginning of coinage in the Occident dates back to 750 B.C., when Pheidon, King of Argos established a mint for metallic currency; these early coins were bean-shaped, stamped with a distinctive emblem, and minted from silver and also from electrum. From these statement it may be seen that China was the first of all the countries in the world to create metallic currency.

For more than 2,000 years the hole copper cash faithfully served as a medium of circulation throughout China. When the price of the metallic ingredients began to surpass the face-value of the copper coins, there was an attempt to melt the latter down and sell the metal. This tendency was accelerated during the World War I when enormous quantities of copper cash were collected in China. In order to be melted and exported abroad as metal, China, especially, the province of Shantung, was almost denuded of its copper currency, principally the old cash.

(2) In Modern Time

After having been in touch for centuries with Western nations and after having had the opportunity of observing the advantage which a regulated currency system provides, Chang Chi-t'ung, one of the most enlightened statesmen China ever possessed, introduced the first modern minting plant in Canton (A.D. 1889), when he was Viceroy there. The machinery was ord-

ered from England and minting operations were started in the summer of 1890. The production by Canton mint of modern copper coins marks an important stage in the development of China's coinage system. The first one cent copper coin was intended to replace the old fashion copper cash (without a square hole in center) and to form a sub-division of the Chinese dragon dollar. Induced by rapid success of the new one cent coin, and encouraged by the Peking Government, many of the provinces erected mints of their own and developed feverish activity in minting the new copper cent coins. Contemporary with the coming of peace in 1901, after the Boxer rebellion, was the signal for far-reaching reforms in every branch of China's national life.⁶ Their output of new copper-cent was readily taken by the people, not only at the face value of 100 to the dollar, but not infrequently at a premium. They were in such heavy demand that prior to 1905 about 80 copper cash could be exchanged for a dollar practically all over China. However, the success and the minting profits obtained by the provinces, which were in possession of minting plants, caused jealousy amongst some of the governors of other less fortunate provinces. This led to the importation of further minting machinery and to feverish activity, resulting in the output of enormous quantities of copper coins. Mints increased rapidly and coinage of money because a favorite means of raising revenues by the provincial authorities. By that time,

6. Wei, Wen-pin, Currency Problem in China, Long Green & Co., 1914, p. 41.

the first signs of overproduction and lack of uniformity made coinage depreciate from the original value. The success of the new one-cent piece was shortlived.

Finally the Governemnt was roused to take action. The decision was reached to reform the country's currency. The regulation was granted by Imperial approval; the rules relating to copper coinage provided that there should be no more new copper mints and that those already existing should be permitted to continue operations in accordance with a set of uniform rules. Unfortunately in fact, the currency regulation was never carried into effect. The new coin has brought much loss and misery on the hard-tried population of the country. The year of 1909 was one of the most critical periods for the minting of coppers; the supply had become super-abundant, the market being flooded with coppers. Most of the mints were forced to discontinue work temporarily.⁷

In 1910, the Government issued another currency reform act by the terms of which the existing copper coins were to be permitted to circulate for few years, while the reformed coins were gradually being introduced. But this act like many other reform measures, was never carried into effect. Since the Republic of China has been established, this copper coinage cannot be considered as a medium of exchange based on a clearly defined standard, but simply as a commodity, subject to continual

7. Kann, E., The Currencies of China, Kelly and Walsh Co., Shanghai, China, 1928, PP. 399-435.

fluctuations.

(B) Silver Tael

In the first place, in the discussion of history of the tael, it must be borne in mind that for most of the period under discussion, no coin represented tael. As a coin it did not exist until in comparatively recent times. The word "tael" signifies a measure of weight and also a medium of currency in silver. The tael or liang as the Chinese term means ounce and is characterized by variation from place to place. But the tael was also a unit of silver money circulating in China, and its fineness, size and value varied from place to place. In other words, it represents a very complicated mechanism of finance.

The existence of silver as a medium of payment in China dates back nearly 5,000 years. But it was not regulated currency until modern times. History records that "silver alloyed with tin, was coined in 119 B.C. by Yuen Shou in Three Denominations; 1, 3,000 cash round in shape and with a round hole in the center. 2, 500 cash square in shape, weighing six liang, and adorned with a horse. 3, 300 cash, oblong, adorned with a tortoise and weighing four liang".⁸ The face-value of these coins far exceeded their intrinsic value and they were soon counterfeited by the people. After a short while they were no longer accepted in circulation.

⁸. Kann, E., op.cit., p. 235.

Before the reign of the Hsia and Shang Dynasties (B.C. 1990--1050) three kinds of money were in existence, namely, gold, silver and copper. Furthermore, according to Terrien de Lacouperie (catalogue of Chinese coins, 1892) Wang Mang, who had dethroned the infant emperor, assuming in his own name the supreme power in A.D. 10, brought about radical changes in the Empire's cirrency. He stipulated that the silver unit currency was one lin, weighing eight taels. The weight was fixed, while the value varied according to the purity of the metal.

During the reign of the Southern Sung Dynasty, in 1193, the silver coins were minted in weights of 1, 2, 3, 5 and 10 taels and the value of each tael was fixed at 2,000 cash. These coins were intended as circulating medium for the settlement of commercial transactions and as official Government as well as metallic reserve for paper notes in circulation.⁹

In 1367, Ming Tai-tsu, in order to maintain the paper currency, he attempted to prohibite the use of silver currency. Nevertheless, silver came into extensive use as currency under the Ming Dynasty, and since the establishment of the Manchu Dynasty most large transactions and treasury operations been conducted in silver.

From 1500, a great deal of the silver stock in China had directly come from foreign trade with the Western countries beginning at Canton in 1516, first with the Portuguese. During that time, the tea and silk trades brought into China a steady

9. Kann, E., op.cit., p. 236.

importation of silver. It is generally estimated that the imports of goods never equaled the exports of tea and silk during the 18th century. The balance was always paid in silver. Mr. H. B. Morse estimated that the total importation of silver into China from 1700 to 1830 could not be less than \$500,000,000.¹⁰ Also Sir Robert Giffen gave some interesting facts about the movement of the silver. He found that concurrently with the export of gold, China was importing silver and that there was an excess of imports over exports of silver. This excess was 5,300,000 in 1877, the largest balance of the seven years he studied.¹¹ From this statistical evidence it appears that China has been a regular silver-importing country.

The quantities of silver which have been mined in China are negligible. Therefore, practically all of the white metal in circulation in China has had to be imported from abroad in the shape of silver bars. But for many decades London held the monopoly as the principal silver market of the world. Since the World War I, New York has surpassed London in its importance as a silver market. The main source of silver production is the United States of America and Mexico, which combined, equal nearly two-thirds of the world's output.

China was an important consumer of silver; she ranks with British India, according to Customs statistics covering

10. Statistical Secretary of the Chinese Maritime Customs, China & Far East, Clark University Lectures, 1910, pp. 96-97.

11. Royal Commission on Gold and Silver, Minutes of Evidence, p. 29.

the years 1888-1934, inclusive. Her total imports for bar silver were valued at Tls. 2,280,283,000, and her total exports for bar silver were valued at Tls. 820,662,000. Therefore her net imports were Tls. 1,459,621,000, for fourty-six years, thus¹² marked an annual average of 31,730,000.

It can be ascertained that these silver bars were¹³ directly employed in China in the following manner:

Silver Bars for coinage in China -----	78%.
Reshipped abroad -----	5%.
And conversion into silver sycee -----	17%.

(1) The Tael of Weight

As mentioned in the beginning of this section the tael in the Chinese system is a measure of weight. In weighing the precious metals, it is the heaviest unit and it has decimal sub-division, each with its own name down to the one thousand-million-millionth part of tael. Those in daily use are as follows:

10 Li (cash) ----	1 Fen (Candarin)
10 Fen ----	1 Tsien (Mace)
10 Tsien ----	1 Liang (Tael)

Through lack of governmental regulation the tael has come to be in the course of time very irregular in weight. The purity of the silver bullion is also liable to variation. Thus commercial usages have come to recognize several degrees of fineness in the bullion in every important market. However, the Chinese Government, in 1844, when fixing the rates of exchange

12. Kwei, C. S., The Chinese Year Book 1935-1936, (in Chinese), Shanghai, China, 1936.

13. Ibid.,

at which foreign currencies would be received in payment of customs dues, ascertained that 20 Ruppee coins were equal to the weight of 6.203 Canton taels. As the weight of 20 Ruppee was 3600 Grains troy, it follows that the Canton tael equals $3600 / 6.203 = 580.036$ Grains or 37.585 Grains.¹⁴ So that the Canton tael weight is generally used for weighing bar silvers.

(2) The Tael of Currency

The use of silver as currency in China began in the Sung Dynasty, but it was made in the form of a sycee-shoe, not as coin which practice was maintained even during the latter period of the Tsing Dynasty. Sycee-shoes are circulated according to weight. After trade was established with foreign countries, the currency tael was the principal medium for financing wholesale transactions and for the payment of customs duties in China, but in the majority of cases circulates in shoes of about 50 taels or liang in which was converted imported bar silvers. However, it must be understood that there was never a fixed ratio established between the cash (copper) and the tael.

It must be remembered that the tael was not only a standard of value, but also a measure of weight, long before it ever became the standard of value. The nature of the Government in China meant very little regulation. There was no uniformity in the several taels current in the different parts of the country. The trade in China, both internal and external has always been double faced; business between one province and another,

14. Kann, E., op.cit., pp. 63-64.

but even two districts in the province, has had to take count of not only the value of commodities but also the value of money. When a merchant from Shantung buys piece-goods in Shanghai he has not only to fix the value of the commodity he buys in money, but also the value of money he has to pay in term of the local currency. The value of money or the tael is regulated by the weight as well as purity and local custom; this transaction in taels implies the use of the bullion in bar silver or sycee.

The amount of alloy to be used in the manufacture of sycee or the purity of the silver bullion, varies with the usage in different commercial ports. For instance, the silver in the Wenchow tael is 561.7 Grains, but the silver in the Amoy tael is only 516 Grains.¹⁵

Until recent years the Chinese Government had made no attempt to issue coins in silver in the manner in which it is done in other countries, finally the Government abolished the system of tael currency.

(3) Variety of Principal Taels

Having briefly reviewed the history of the silver tael, I should like to further discuss the different kinds of principal taels which are used primarily for commercial transaction. All taels of silver in China, however, not of even weight or even fineness, each city or commercial guild ports were to be levied according to commercial treaties. Mr. H.B. Morse, who for many years was Commissioner of Custom in China,

¹⁵. Kann, E., op.cit., p. 50.

has stated that there were no fewer than 170 different kinds of taels in China, 67 well recognized standard with their value in terms of one another.¹⁶

For practical purposes we need consider only four important kinds of taels as follows:

a. The Haikwan Tael

The Haikwan tael is the principal one used in foreign business in China. This tael is used in payment of tariff duties. Its value was fixed in the year of 1842. Theoretically, this tael is one of pure silver, 1,000 fine, containing 583.3 Grains, adopted as a money of account. Though the duties are calculated in this unit. The rate of conversion at Shanghai port for every 100 Haikwan taels is 111.40 Shanghai taels.¹⁷ But the rate of conversion for Haikwan tael in foreign currencies is determined by the Customs authorities each month, based upon current exchange rates, for instance, in January 1925, the United States one dollar equals 1.20 Haikwan tael.¹⁸

b. The Kuping Tael

The money of account of the Chinese Government was the Yuan dollar and the currency regulations prescribe that in all public offices, where the receipts and expenditures were calculated in taels, the amount should be converted into terms of Yuan dollars. This provision applies also to all collected

16. Lee, F. E., op.cit., p. 14.

17. Ferguson, J. C., "The Chinese Bank System in Shanghai", North China Daily Herald, March 2nd. 1906, pp. 473-498.

18. Lee, F. E., op.cit., p. 15.

revenues and taxes. Hence the Kuping taels were being supplanted by the Yuan dollar.

The Kuping tael or Board of Revenue tael contains 575.8 Grains of silver, 1,000 fine. The Kuping tael compared with the Shanghai tael is in the ratio of 100 Kuping to 109.60¹⁹ Shanghai taels.

c. The Tsaoping Tael

The Tasoping tael is not a currency but is in reality a weight of approximately 565.65 Grains and becomes the weight element of a currency tael in the several provinces which pay in commodities, mainly rice and silk. In some cases, however, the Tsaoping tael is used in Shanghai area by native bankers as a basis for exchange transactions with other ports of China, and is fully current and fully recognized at Shanghai. It is ordinary currency for Chinese remittances through Chinese banks to places in China. It is in regular use at Chefoo and the standard is 976, at Kiukiang and Wuhu 944, at Hangchow 997. Practically speaking, 98 Tsaoping taels of silver are counted²⁰ and universally accepted as 100 Shanghai currency taels, because this ratio is regulated by agreement.

d. The Shanghai Tael

The local tael of greatest importance in mercantile transactions in China was the Shanghai tael. This tael was also the standard of international exchange for the trade of North-

19. Wei, Wen-pin, op.cit., p. 38.

20. Morse, H. B., op.cit., p. 173.

ern China and the Yangtze valley. The value of the Shanghai tael was made up of three elements; the weight, the quality of silver, and a convention ratio. The weight is taken from the Tsaoping tael of 565.65 Grains, the silver is then reduced to a standard of 944 fine on the Kuping tael basis of 1,000 fine, and the convention is that 98 taels of this weight and this silver settle a liability of 100 taels "Shanghai Convention Currency." In other words, 98 taels in hand are worth 100 in²¹ bush. Hence it made the Shanghai tael actually 523.428 Grains of silver, 1000 fine (Kuping).

In order to fully understand what is a Shanghai tael of foreign exchange, for instance, an ounce of British standard (1925) silver contains 444 Grains of fine silver. The par of silver exchange is found by dividing the London price by²² 0.864.

(C) Silver Sycee

The word of "sycee" is derived from the Cantonese pronunciation of Hsi-su meaning "fine silk". Practically, all the sycee taels in circulation in China are made from imported bar silver. The latter is shipped to China as ingots in the shape of bricks, weighing approximately 1,000 ounces each, and being of a fineness of from 996 to 999 thousandths. The manufacture of sycee taels was entrusted to a few privileged private

²¹ Morse, H. B., op.cit., p. 179.

²² Loh, K. H., The Trade and International Relations of the Chinese Empire, (in Chinese), Shanghai, China, 1908, p. 161.

smelters, called Loofang, who worked without Government control.

The conversion of bar silver into sycee results in the creation of silver ingots, called shoes or sycee, the weight of each being approximately 50 taels. Before being put into circulation each shoe was weighed and assayed by the public assay-office (also free from Government control), called Kung-Ku-Chu. The weight and the fineness of at least 0.935 was cast into ingots which were recorded in Chinese ink, the finding of the²³ assayer being accepted as final.

Sycee represented the tael currency of China. It is difficult to ascertain the origin of the sycee tael, but history recorded that the close of the 13th century was the period in which silver in the shape of the sycee-shoe made its first appearance in China. The weight of each individual shoe differed somewhat, and so did the fineness, but both were recorded on the face of each ingot by Chinese inks.

The sycee tael which has served -- and served well -- as currency in China nearly a thousand years, is really archaic in constitution and since has been replaced by modern coinage and mostly the Chinese Republican dollars were minted from silver sycee. So that gradual disappearance of the sycee as medium of currency is coming out of natural causes. Before the year of 1934, the only three big cities where sycee taels still form part of banks cash were Shanghai, Tientsin and Hankow. But at the close of 1934, Shanghai banks held altogether taels 29 mi-

23. Kann, E., op.cit., p. 60.

llion in the shape of sycee. Hankow and Tientsin combined not more than about 5 million taels. Estimated the stocks of sycee silver in the rest of China at 5 million taels. So that it had at a maximums of 39 million sycee taels for the whole of China area.

(D) Silver Dollars

(1) Carolus and Mexican Dollars

In the beginning of the sixteenth century, Spanish traders, from their base in the Philippine Islands, introduced to China the Carolus dollar which succeeded in maintaining its status in Shanghai until 1856. By that time it had reached a premium of over 30 percent, thereby causing much harm to legitimate trade.

From 1757 A.D., when Canton was opened a port for foreign trade, the Spanish dollar gained wide circulation. These Carolus dollars were paid for such exports as tea, silk and porcelain among other Chinese products. The Spanish dollar thus became the valuable currency for international transactions and bank's exchange quotations were likewise based thereon. In the course of time the Spanish dollar, as the only silver coin in circulation penetrated into the interior provinces of Kwangtung, Fukien, Kiangsu, Chekiang, Anhui and Chihli, and until 1856 it was the local currency along the Yangtze valley. Afterwards, the minting of the Carolus dollar having been discontinued in the latter part of the 19th century, supplies became scarce and pre-

miums were demanded in China, hence causing the gradual replacement of the Carolus dollars by either silver sycee or the rival coins, so that the local value of Carolus dollar was advanced to premium varying between 20 or 30 percent above the intrinsic value of the coin. Naturally, a serious dislocation of trade was created at this moment.

However, in 1855 the Shanghai Taotai²⁴ issued a proclamation, decreeing that all dollars be accepted in payment without distinction, as long as they were identical in fineness and weight. Moreover it was inevitable that the Mexican and some South American coins entered China, likewise through Canton whence they spread up to the Yangtze basin. It was a well-known fact that the Mexican dollar had won the fight effectively replacing the Carolus dollars. The principal causes for this phenomenal success was the superior fine content of silver as found in the Mexican dollar, and its uniformity and reliability during the many decades of its existence. The widest circulation was attained by the Mexican dollar in China. By 1911, the total number²⁵ circulating there was estimated at 500 million.

In 1914, the Chinese Republican Government having been established, a new formidable rival to the Mexican dollar arose in the shape of the Yuan Shih-kai dollar. Since then the Mexican dollar began to vanish from circulation in China, but at the opening of 1935 Mexican dollars were still acceptable at Shanghai, and these coins were only very rarely met with, having

24. State Governor

25. Kann, E., op.cit., p. 145.

previously been exported or melted down.

As the Mexican dollar legally weighs 417.8 grammers and be 902.65/72 fine, its content of pure silver ought amount to 377.14 grains. But by the analysis undertaken by the Chinese Mint, the gross and net weights of the Mexican dollar are as follows:
26

- I. 0.7284 Kuping taels weight or net 0.6569 Kuping taels.
- II. 0.7222 Kuping taels weight or net 0.6534 Kuping taels.

(2) The American Trade Dollar

Parallel with the success attained by the Mexican dollar, the silver resources of the United States began to developed. In order to find a market for their huge output of silver the mine owners petitioned the Congress in 1873 to have their surplus silver coined by the Government Mint for special requirement for the Far East, when the Mexican dollar ruled supreme and the demands on the part of Eastern commerce are so great. Under these circumstances the United States Government decided to issue the American Trade dollar, which met a splendid reception in the Chinese ports, superseding the Mexican dollar in the course of time.

The American Trade Dollar was minted at a weight of 420 Grains or 27.215 Grams, being 0.900 fine, this means that its content of fine silver was 378 Grains, as compared with 377 $\frac{1}{4}$ Grains of pure silver contained in the Mexican dollar.
27

26. Kann, E., op.cit., pp. 146-147.

27. Ibid., p. 131.

However, when the American Trade Dollar was produced in 1873, it was worth, at the ratio of exchange then prevailing a little over \$. 1.04 in United States gold. Thus it made the coin not only popular and widely circulated in China. But in the year of 1877, because the United States Government had never decreed Trade Dollar as the legal tender, its issue was hastily discontinued. However, a small portion of coins circulating in China was reshipped to the United States, while the major part ended in the melting pots of Cathay.

The various dollars described so far were of foreign origin, though they had a considerable circulation in, and great influence over, certain parts of China. Apart from the foregoing specimens there were still other foreign silver dollars such as Bolivian, Chilian, Peruvian, British Dollars and Japanese Silver Yuan, current in certain districts of Chinese commercial ports but these existed just for a short time and to a small extent only.

(3) The Chinese Dollar

The first Chinese silver dollar was minted strange enough, in Tibet, in the 57th year of Chien Lung (Tsing Dynasty) it was called the "Chien Lung precious treasury coin". Minting on a large scale began in the 17th year of Kwangtung, the coin was called the "Kwang-hsu Yuan Pao precious coin" --- weighing 73 candareens Tsaoping tael. Other provinces followed suit, but the different weights and fineness caused confusion. At last in the 29th year of Kwang-hsu an effort was made to unify the wei-

ght and fineness. An edict was issued to establish a head Mint at Tientsin to unify the form of dollar. The head Mint was completed in the year of Kwang-hsu and was called Hu-pu (Finance Board) head Mint.²⁸

The success attained by the foreign dollar coins in China induced the then Viceroy of Canton, Chang Chih-tung to petition the Throne in 1887 for permission to coin Chinese dollars, for the purpose of turning out copper cash which failed to obtain the favor of the public acceptance with the resulting discontinuance of the minting. Furthermore Chang pointed out that throughout almost all provinces of China the Mexican Dollar ruled supreme and that the appearance of the newly proposed Chinese dragon dollar would tend to dislodge the foreign currency. The petition was finally accepted by Imperial sanction; whereupon the Canton mint began in 1889 to strike the first dragon dollar.

The gross weight of the new coinage, styled Kwangsu currency, was 0.73 Tsaoping taels or 0.724455 Kuping taels; its content of fine silver weighed 0.6540 Kuping taels, which corresponds to the fineness of the Mexican Dollar, viz. 902.7/1000²⁹ths. It was decreed the new dragon dollar which gained wide circulation should be the legal tender and acceptable as such in payment of taxes, customs dues and official salaries. In the course of time, however, it lost popularity on account of lack

28. Woodhead, H. G. W., China Year Book 1921-1922, The Tientsin Press Co. LTD., Tientsin, China, 1922, p.302.

29. Kann, E., op.cit. p. 150.

of uniformity and owing to systematic debasement by some of provincial mints. Also with the fall of the Imperial regime the Ta-ching or dragon dollar had to vanish. Then the Board of Finance promulgated the regulations and laws in the second year of Hsuan Tung (1910) to a new and uniform the Chinese standard dollar. It provided that the new standard coins should be styled "Yuan", also known as Ta Ching Yen Pi (silver coin of the Ta Ching Dynasty).

The new standard dollar was to weight 0.72 Kuping tael³⁰ and to be 0.900 fine. The mints at Wuchang and Nanking started to strike the standard Yuan in July 1911, with the intention of putting it into circulation during December of the same year. Unfortunately, the Nationalists revolution broke out in October 1911 and the new Ta Ching Yuan dollar, though still in circulation, was reduced to little significance till the Sino-Japanese war in 1937.

The Republican regime necessitated the issuance of a new dollar. This resulted in the minting of the Yuan Shih-kai dollar which made first appearance at the end of 1914. It has succeeded in replacing not only the Mexican and other foreign dollars, but also the heterogeneous collection of Chinese dragon dollars. The new Yuan Shih-kai dollar was to be 0.900 fine and to weigh 72 candareens in Kuping taels; that is to say, the content of pure silver was to be 0.648 Kuping taels in weight.³¹

30. Kann, E., op.cit., p. 154.

31. Ibid., p. 159.

In order to facilitate the introduction of the new Yuan Shih-kai dollars the Government arranged that the Bank of China, the Bank of Communication and the official provincial banks should exchange, free of charge, the old dragon dollars against the new Yuan Shih-kai dollars. This measure was welcomed by the commercial community, as it facilitated the introduction of the new coin. During the period from 1914 to 1919 about 19 million dragon dollars and foreign dollars were melted by the mints for re-coinage into the new dollars. But different methods were adopted by the various provincial mints with the result that the Yuan Shih-kai dollars were found somewhat different one from another. Consequently there was a distinct want of uniformity, although the legally fixed standard was fairly well maintained and the coins were circulated everywhere in China without dispute.

The regime of Yuan Shih-kai Government passed away which caused the rising of Dr. Sun's Nationalists Party. The new Sun Government instructed the provincial mints at Hangchow and Nanking to cease coining the Yuan Shih-kai dollar and to produce instead a dollar piece with the effigy of Dr. Sun Yat-sen. At Nanking for the purpose of producing the first National Republican commemoration coin, during the year of 1928 about 150 million Sun Yat-sen dollars were coined at Hangchow and Nanking. The Sun's Government was making endeavour to procure suitable designs for a Sun Yat-sen dollar which was meant to serve as a model for introduction of uniform dollar all over

the country.

The year of 1928 up to 1932 witnessed coinage by the Hangchow mint of about altogether 400 million mobe Sun Yat-sen dollars. But on March 1, 1933 the national Sun's silver dollar began to renew the model and to be struck at the Shanghai Mint. On the observe it bears a reproduction of a bust of Dr. Sun Yat-sen, while the reverse is adorned with a Chinese junk at sea.

The latest new standard dollars were 880/1000ths fine, had a gross weight of 26.6971 Grammes and contain 23.49-3448 grosses of pure silver. Its fine silver content equals Shanghai taels 0.6992365, while its minting charges amount to ³²2 $\frac{1}{4}$, thus making the dollar the equivalent of taels 71.50. On March 10, 1934, the new dollar was first delivered to the Central Bank of China, and it was to be coined by the Shanghai Mint exclusively.

Unfortunately, this renewed model of the national standard dollar has peacefully served in China for, but a few years. Finally with the chaotic conditions of the Chinese internal economic and political situation, and as influenced by the adoption of Silver Purchase Act by the United States, the old Chinese silver system was entirely abolished. The silver dollar hence appeared no longer in the Chinese monetary system.

32. China, Ministry of Finance, Annual Report for the 21st and 20th Fiscal Years, July 1932 to June 1934, Nanking, China, 1935, p. 15.

(E) Gold

During China's early history gold has always been held in high esteem amongst China's commercial community as an indisputable basis for the liquidation of financial obligations. Although gold was never recognized in China as early as 1100 B. C. as a measure of values it became subsequently a suitable medium for circulation.

According to the well known Orientalist Terrien de Lacouperie, who basis his statement on the Annals of the Former Han Dynasty, gold was first legalized as a medium of circulation in 1092 B.C. And he has stated again that in 221 B.C., the King of Tsin issued of new currency; gold in the shape of small cubes called Yh. These Yhs were weighed on Kin (Chinese catty).³³

In 10 A.D. Wang Mang established new sorts of currency in gold, silver, tortoise shells, cowries and copper in order to replace the knife money. The gold currency unit was called Kin and had the value of 10,000 cash.

From time immemorial, apart from minted gold there is, and has been for centuries, a more or less extended use of gold leaves. These were manufactured in South China, principally from imported gold coins. They were first melted and then refined so as to be as near as possible 1,000 fine. Gold leaves are easily hidden and in case of danger, carried unobserved on the body of a person. Hence they formed an excellent object for

33. Kann, E., op.cit., p. 259.

hoarding.

While gold coins were never actually issued for circulation throughout the entire domain of China, they have temporarily circulated as recognized medium of exchange within certain provinces or dependencies of the vast country.

Since 1850 recording have witnessed the issues of the following gold coins within the domain of China:

a. Taiping tael coin issued at Nanking during the Taiping rebellion. The denomination was not embossed on the coin which was meant to represent 25 taels in silver.

b. The first gold coin, tilla, was introduced in Chinese Turkstan during Yakub Beg's rule there 1870-1877. It bore Mahammedan inscriptions and the portrait of the Sultan of Turkey.

c. In 1919 two gold coins in denominations of \$. 10 and 20, fineness 0.850, bearing the effigy of Yuan Shih-kai were minted in Tientsin. They were intended to serve currency purpose, but with the collapse of Yuan Shih-kai's Government to become Emperor the plan to circulate the gold coins were abandoned.

d. Due to the World War I silver supplies eased to reach the far-off province of Yunnan. Therefore the military Governor Tang Chi-yao issued towards the close of 1919 about 900,000 gold coins of a denomination of \$. 10 each. A second gold coin, inscribed 5 dollars. Shortly thereafter, both bearing the portrait of Tang with the fall of silver price, holders of

these coins promptly sold them, these coins were melted down³⁴ and the gold was exported again.

e. In commemoration of the revolution various coins were struck with the bust of Sun Yat-sen. Amongst these were the one dollar and the 20 cent-piece in silver. Both coins were also minted in gold and bear distinctly the character of medallions.

In conclusion, these were many attempts to introduce the gold standard currency in China but none of the numerous plans was capable of realization. Consequently there never was a gold coin circulating throughout China as legal tender. Apart from the coins already mentioned, there was an issue of numerous gold medallions in celebration of memorable events; but these rank merely as souvenirs.

(F) Gold Bars

Of numerous importance to the country's international exchange engagements is the use of gold bars in China. Originally these appeared in the shape of shoes with a high degree of fineness. It is a favoured form of investment for the people, because it does not deteriorate in substance, it never loses value through change of fashion; it is easily hidden or hoarded in case of danger and it offers the possibility of a chance to sell at a profit.

When gold began to be turned out in the form of small

34. Kann, E., op.cit., p. 272.

bars weighing about 5 or 10 taels each is a recent story, apparently dating back only one or two centuries. Each bar is embossed with the firm name of the smelter besides the year in which it was manufactured and the characters, meaning literally "surface gold", for instance, gold containing alloy, but actually standard gold.

As the amount of gold mined in China is negligible in quantities, it is necessary to import in the shape of foreign gold coins in order to produce gold bars. The import into China of gold coins is solely a question of parities and therefore a problem of arbitrage. Gold bars could be exported from China to any country willing buy them at the seller's price. There are no restrictions placed in the way by the Chinese Government, and there is no duty imposed on gold shipments, inward or outward, by the Custom. But since 1930 the gold export from China in any shape was prohibited by the Government and the embargo is still in force at present time. The Custom in turn issued the import and export value of gold in terms of the Custom Gold Unit since the institution of an embargo on the export of gold in 1930. However, gold bar was exported by the Central Bank of China exclusively, under Government licence.

The following table covering movements of gold to and from China, from 1890-1925 inclusive, has been compiled from official Chinese Maritime Custom publication. First of all, the value of gold imported and exported is in conformity with old established usage, given in Custom currency, in Haikwan

35

taels of silver.

	H.K. Tael
Total imports of gold from 1892 to 1925 ----	266,778,000.
Total exports of gold from 1892 to 1925 ----	353,748,000.
Difference ----	<u>86,970,000.</u>
Net total import of gold from 1890 to 1925 ----	98,047,000.
Net total export of gold from 1890 to 1925 ----	<u>190,493,000.</u>
Excess of export over import from 1890 to 1925 -	92,446,000.

Since the export and import of gold was prohibited by the Chinese Government in 1930. There was no available figure published.

The beginning of 20th century, the principal market for gold bars is Shanghai, where huge transactions are daily concluded.

There are two main kinds of gold bar universal acceptable.

a. Red gold bars --- this means gold as nearly as possible 1,000 fine, for use in goldsmiths' workshops. Transactions are concluded per Ping.

b. Shanghai gold bars --- there are supposed to be of a fineness of 0.978 and of a weight of 10 Tsaoping taels per bat. Transactions are concluded per Ping or by multiples thereof.

35. Kann, E., op.cit., pp. 276-277.

36. Each Ping is 50 Tsaoping taels. Shanghai in weight but the price quoted for red gold is per 10 Tsaoping taels.

37. One Ping consisted of seven bars weighing 70 Tsaoping taels, therefore we can buy, for instance, 49 bars, 105 bars or 700 bars, but not 100 or 500 bars.

(G) Paper Money

The history of bank-notes in China undergoing many stages is very long. The first appearance of paper money went far back to the time of Emperor Hsien Tsing (806-821 A.D.) of the Tang Dynasty. The immediate cause for the innovation was a chronic shortage of copper money. In exchange for coin the Government issued certificates of deposits which were called Fei Ch'ien or Flying Money. The populace found these certificates very convenient, so that these notes gradually become part of the circulation. The certificates were redeemable in the capital of every province, thus embodying of a bank notes, the first issue of paper money in China.

The Sung Dynasty in 960 A.D., followed the Tang and begun issuing a new kind of paper money, called Pien Ch'ien or Convenient Money. Originally these notes were issued as inter-provincial transfers for the convenience of merchants who deposited metallic money and obtained in exchange paper money redeemable at a provincial capital. When these notes became generally current and very popular, the Government began to make the issue expressly for general circulation. The Government made large metallic reserves which were kept in order to prevent depreciation. The highest amount of notes in circulation at no time exceeded 2,830,000 Kuan, each Kuan nominally 1,000 cash.

38. Morse, H. B., op.cit., p. 151.

39. Wagel, S. R., China Currency And Banking, North China Daily News and Herald, Shanghai, 1915, p. 64.

The province of Szechwan is geographically isolated and has more than once been an independent state. Shortly after the beginning of the Christain era iron coins were cast there and formed the currency for a long period. The iron money was so that people were very much discontented with these heavy coins. Therefore it was agreed upon that sixteen wealthy business firms should form a guild for the purpose of issuing notes, called Chiao Tze or Evidence Money. These notes soon became, for all practical purposes, the currency of the province. Few years later, the sixteen firms became poor and had to decree their inability to redeem their evidence notes. In order to prevent a financial debacle the Government declared that these notes were inconvertible paper currency and took over the right of issue from the guild, and established a separate Government office to manage the issue and circulation of paper money. The Government notes thus had circulated for fairly long time. And for a time at least, the Government should find no difficulty in issuing as many as it liked. Also in the this period, the prolonged struggle with the Tartars exhausted the resources of the country, the Government was more or less forced to resort to the issue of paper money as a means of raising revenue. However, the Government attempted to secure financial gain for itself by means of its control of the monetary system which means to stop the decline, but all attempts proved futile. Finally the price of paper money fell ten percent of its face value, due to excessive issue of the notes. In combination with repeated defects

the Sung Government suffered at the hands of the Chin Tartars.

From 1130 until final conquest of the country by the Mongols, China was divided into two halves --- the Sung Dynasty holding the Southern part and the Chin Tartars ruling over the Northern half. Both of them had to issue inconvertible paper money for purpose of revenue. The Kuan Tze or Fornties Bill were issued in order to pay the troops stationed on the frontier. As the people had much experience of paper money in the past, these bills had to be forced into circulation and consequently were heavily discounted. Besides the Government also issued tea notes, and silk notes exchangeable respectively for tea, grain or silk, and for such totals as were mentioned in the notes. But the fronties bills as well as the varieties of notes were extremely unpopular. Afterwards, the Kuan-tze had to be replaced by new notes called Hui Tze, which were in four denomination; the usual 1 Kuan or the 1,000 copper cash notes and 500, 300, and 200 cash notes. It was decreed that the public dues must be payable one half in Hui Tze and the other half in metallic currency. The object of such a decree was to prevent depreciation of Government paper. Later on, this regulation was extended to all business transactions. The Government manufactured the notes which were stamped with the Treasurer's seal before they were put into circulation. The Treasurer's seal gave the notes the character of fiat money --- it was understood that the Govern-⁴⁰ment had the sole monopoly of the issue of paper money.

40. Wagel, S. R., op.cit., p. 68.

Contemporaneous with the Southern Sung, the Chin Tartars ruled Northern China. The Chin Tartars issued inconvertible paper money called Ch'ao. These existed in denominations 10,000, 5,000, 3,000, 2,000 and 1,000 copper cash notes for use in large payments and 700, 500, 300 and 100 cash notes for use in small payments, or as subsidiary. These notes were supposed to be redeemable in a new series once every seven years. The currency of the Chin's was better controlled and more centralized than that of the Sung Dynasty.

When the Mongols conquered China, they hastened to repudiate both the Ch'ao and the Kuan paper money. The Mongols were the founders of the Yuan Dynasty (1279-1367). The first Mongol notes were issued under the regime of Kublai Khan. The Pao Ch'ao or the Precious Notes was decreed the sole tender in which taxes and dues became payable. These notes existed in denominations of from 10 to 2,000 copper cash. However, shortly after the Kublai Khan passed away in 1284. The new series called the Pao Ch'ao of Chih Yuan were issued; these new notes were exchangeable for the old notes at the rate of one to five, that is, one note of the new series was to exchange for five of the old of equal nominal value.

However, a few years later, the Pao Ch'ao of Chih Yuan notes were so thoroughly depreciated as to be almost useless except where the authorities were able to force it on the people for the payment of heavy taxation. So the evils of heavily declined and irredeemable paper currency caused the solely tried

population to rise in revolt against the Yuan Dynasty. Even during the dawning years of the Ming Dynasty, they had to continue using the old paper notes for some time, although the first Emperor Hung Wu (1368-1399) at first repudiated all the old paper money. Then the Ming notes were printed, on mulberry-bark paper, the face value of which was worth 1,000 cash. These newly issued notes of the Ming Dynasty has peacefully served quite a long time. But after China had been opened to foreign trade, the large importation of silver helped gradually to oust the paper money from its high prestige.⁴¹ Rapidly, the people eagerly welcmoed the resumption of specie payments and the paper money was automatically retired. Although in the following regimes of the Ming Dynasty efforts were often made to re-establishing paper currency, practically everyone of them failed.

The Ming Dynasty gave way to the Manchus, who ruled from 1644 up to 1911. An attempt was made to issue paper money, but it had soon to be abandoned due to the fact that the finances of the country were extremely bad and counterfeit notes were widely circulated in the market. Apparently, people still preferred the specie as a large transaction payments.

During the Taiping rebellion, however, paper money had once more to be resorted to as a means of raising revenue. Notes to the value of 1, 3, 5, 10 and 50 taels in silver, and

⁴¹. During that time, the silver was valued by weight and not as coin.

also paper worth 500, 1,000, 1,500 and 2,000 in copper cash were forced into circulation. Within a few years after such issue the notes depreciated very heavily to the worth of only 30% of their face value. Because most people gave highly prestige to silver and gold at the time of riots, the paper money very soon disappeared from circulation. Since the revolution, paper currency conditions have become a great deal worse than before on account of the issues by the provincial, local and private banks of a large amount of bank notes which has served as media of exchange, but which was not backed by sufficient reserve funds. The inescapable result was that these paper notes had been heavily discounted and confused, and the people still trusted the silver dollars or taels as large domestic transaction payments.

In 1931, the method of issuance of paper notes was reformed, requiring issuing banks to hold specie reserves for at least 60 percent of their notes issue, besides 40 percent in readily negotiable bonds. On account of this provision, the chaotic situation of the paper currency was gradually improved and their overissue stopped.

Chapter II

PROFESSOR KEMMERER'S PROJECT FOR THE GRADUAL INTRODUCTION OF A GOLD STANDARD CURRENCY SYSTEM IN CHINA

(A) General Background of Reforms

During the early years of the 20th century, the currency of China could not, properly speaking, be called a system. It was composed of a number of currency units. There were the cash copper coinage, the currency of silver bullion based on the tael unit; the silver coins, the dollars of foreign as well as of provincial mintage; meanwhile there were several minor silver coins, fractional parts of the dollar circulating independently of the unit and with no limitations upon their legal tender. And finally there were various kind of banknotes existing in the market. We may, however, regard the Chinese currency system as on a bimetallic basis with the copper cash and the silver tael as the units. This must not be mistaken for real bimetallic system which, it is understood in the West, requires free coinage of gold and silver, both as legal tender with a fixed ratio between the units of coinage. But the two metals in the Chinese currency system, on the contrary, were independent of each other and circulated without a fixed exchange ratio between them.

However, after the Boxer upheaval the tendency became discernible to institute reforms into many branches of domestic life; foremost amongst them were intended reforms with

regard to the country's currency system. Coincidentally, with the depreciation of the copper cash piece came the high cost of living as a natural sequel to trade and cultural relations with the Occident. The minted copper coinages has ceased to act as the people's daily money in the principal ports and larger towns of China; factory wages and salaries were beginning to be quoted in silver dollars. Gold bullion is, and has been circulating in China from ancient time and more than ever before, a factor of prime importance in the liquidation of China's international transaction.

Since 1929, in common with every country, China suffered from the world wide economic depression. For China the depression is aggravated because silver, the basic currency of the country, has fallen to unexpected low levels. On the other hand, the foreign demand for Chinese products was much reduced forcing the national income to a low level. Furthermore the Government was engaged in the most serious internal civil war due to the feudal reaction of the Northern militarists and Communist outbreaks in the South provinces. As a result, the military expenditures rapidly increased, while the national revenue decreased. Hence the national economic life was greatly influenced by the above external and internal disturbances, especially on account of the unstable currency created. Therefore the Government paid much attention to urgently needed measures of economic and financial reform. The Ministry of Finance tried every means to improve and stabilize the chaotic

currency condition to meet this emergency. The National Currency Commission was thus created.

The question will arise; which was the real currency standard of China, --- copper, silver, gold or paper money ? All of these commodities were current within the country having long history.

Under these uncertain circumstances, the National Currency Commission has invited the United States financial expert to assist. Professor E. W. Kemmerer arrived in China in 1929, studied China's currency and financial conditions and suggested plans for an effective improvement of the present situation. On November 11, 1929 the Commission presented to the Minister of Finance its report, "entitled the project of law for the gradual introduction of a gold standard currency system in China."

Although Professor Kemmerer's projects have not been adopted by the Ministry of Finance of China, they had large influence on the later currency reforms in 1935. In the following pages will discuss and analyze the significant points of Professor Kemmerer's project.

(B) First Gold Standard Recommended

The proposed Kemmerer reform project contained two urgent aims, namely, the replacement of China's confused currencies by one uniform and nation-wide system, and the introduction of a gold standard system. The chaotic conditions of

the Chinese currency was a serious handicap to trade and to the development and prosperity of the country. The Chinese national revenue depended wholly on silver, while a large portion of the country's obligations were to be counted in gold which had a disturbing effect upon the country's foreign trade. Besides, the Government receipts were almost wholly in terms of silver, while a large part of the payments were fixed in terms of gold which made more national wealth flow abroad. With these great purposes China should adopt the gold standard system.

The project submitted by Professor Kemmerer provides for a permanent retirement from circulation of the various monies in use within China and the introduction of uniform gold-currency system for the country.

It is proposed to issue a new gold unit, to be called "sun" which is to contain 60.1866 centigrammes of fine gold, thereby equalling 40 U.S. cents (2.50 sun equal 1 U.S. dollar) or ls. 7.7265 pence, or 0.8025 Japanese gold yen.

The project provided for silver coins of one sun, 50 and 20 cents; nickel coins of 10 and 5 cents. The minting of gold coins was not recommended in the project. On the other hand, it does provide for the maintenance of the parity of all

1. Commission of Financial Experts, Project of Law For the Gradual Introduction of a Gold Standard Currency System in China, together with a Report in support thereof, submitted to the National Government through the Ministry of Finance by the Commission of Financial Experts, December 10, 1929, The Bureau of Industrial and Commercial Information, Shanghai, 1930, Chapter I, Article 2, p. 1.

2. Ibid., p. 37.

3. Ibid., Chapter II, Article 5, p. 2.

coins with the value of a fixed gold unit, and also for a mechanism whereby the amount of currency in circulation will vary in the same manner as the amount of currency varies in countries like the United States of America or Great Britain, based on the actual ingress and outflow of gold. But the plan does not provide for the coinage or circulation of gold coins.

The silver sun, which will represent the gold unit of value and which must at all times be kept at a parity with this gold unit, is given a gross weight of 20 grams, a millimal⁴ fineness of 800 and a pure silver content of 16 grams. As we know, the Sun Yat-sen dollar had a legal weight of 26.86 grams, a legal fineness of 890 and a legal pure silver content of 23.91 grams, the proposed silver sun would have a gross weight of 74 percent of the legal weight of the Sun Yat-sen dollar and a pure silver content of 67 percent⁵ of the legal pure silver content of this dollar.

(C) The Method of the Gold Exchange Standard to Apply

All the coins are to be fiduciary. Their parity with gold is to be maintained by unlimited redemption in drafts on gold standard nations, or in gold bullion in China --- at the option of government. Redemption of coin will be in demand drafts for not less than 2,000 sun, drawn on the main financial centers abroad.

4. The Commission of Financial Experts, op.cit., Chapter II, Article 6, p. 2.

5. Ibid., pp. 94-95.

However, a premium is to be charged on such redemption, equalling the shipping of gold from a city in China to the city abroad in which the draft is drawn. This measure is deemed justified by the necessity that, whenever any country has gold coins in circulation, and the rate of exchange goes to the gold point, an exporter of gold would have to pay the shipping cost equal to this premium.

Parallel with this measure, in order to provide the equivalent of an importation of gold into China, banks acting as agents of China abroad will be prepared to sell drafts payable in China in gold standard money (sun) charging a premium equal to the cost of shipping gold to China. In this way, the currency in China will be increased just as effectively as though gold were actually imported. Exchange fluctuations will thus be limited to the "gold points" as under a standard with gold coins in circulations.

(D) The Currency Reserve Funds

In order to provide for the redemption of coins as already mentioned and to provide for the sale abroad of drafts payable in Chinese money, a gold standard trust fund, amounting to not less than 35 percent of the coins in circulation is to be established. It is to be divided into two parts;

- a. A fund consisting of gold and foreign credits

6. The Commission of Financial Experts, op.cit., pp. 38-39.

payable in gold. This fund is to be used exclusively for the redemption of coins in China by means of drafts as previously stated.

b. A fund consisting of Chinese coins and metal for coinage purposes, is to create the means of new currency when the need arises; or take up the slack if the currency should become redundant and should be presented for redemption in drafts. Thus it will constitute a buffer fund, regulating automatically the supply of currency in China to changing trade needs, an excessive drain on part I of the fund will be checked automatically by a contraction of the currency in China, the currency redeemed going into part II of the fund where it will be locked up.⁷

(E) Gold Standard to be Introduced Gradually
and the Withdrawal of Old Paper Money

According to the provision of Professor Kemmerer's project, the gold standard is to be introduced gradually, province by province. Thereafter, the new money is to circulate freely and legally used to pay wages, make bank deposits and for any other transactions. The new money thereafter will be receivable and payable by the Government at the rate of one sun for one dollar (silver), unless the Minister of Finance fixes another rate of conversion. Exchange banks supplied with stocks of the new money, will be opened at convenient places

⁷ The Commission of Financial Experts, op.cit., Chapter IV, Article 19, p. 10.

so that the public will be enabled to convert the old silver money and paper money into new gold standard money at official fixed rates. These rates may be different for different provinces and may be changed from time to time.

The currency reform Commission's project of law provides for a monopoly of note issue by the Central Bank of China, after the latter has been reorganized into the Central Reserve Bank of China. As soon as the currency project becomes law, all other private, provincial and local banks, cooperations, firms having issued notes, are not only to stop circulating these but take immediate steps for the retirement of existing issues. The final "notes retirement date" is not to be fixed earlier than the "debt adjustment date" and is to be announced at least one year in advance to which all notes are to be retired at face amount. Whenever notes are badly depreciated in value, these may under certain conditions be retired below par⁸ at rates determined by the Minister of Finance.

The preceding, very briefly stated, are the main features of the Professor Kemmerer's report on currency reform project. Also Professor Kemmerer contributed two possible plans which could be adopted for going over to the gold standard, each of which is capable of many possible variations.

8. The Commission of Financial Experts, op.cit., pp. 42-43.

(F) Indirect Plan

The first plan would be to adopt the indirect method throughout the country, instead of the existing confused coinage, a simple, uniform, honest decimally divided coinage on a silver standard. Using as the unit of value the present Chinese national silver dollar, for instance the then Sun Yat-sen dollar. After this new coinage had been substituted throughout the country for the old coinage, to gradually transform this new silver standard money into gold standard money. This is essentially the plan adopted by Great Britain for the Straits Settlements in 1903-1906, and is sometimes called the Straits Settlement Plan.⁹ Although the adoption of a national silver standard system as an intermediate step toward the establishment of a gold standard, the main points of the plan permits the maintenance of a silver standard for domestic purposes and prevents a sudden drop in the value of silver, thus keeping harmony with the silver standard.

(G) Direct Plan

This plan would be for China to reform directly from the existing confused and chaotic currency system to a gold system, recommending the gold standard exchange promptly in

⁹. Kemmerer, E. W., Modern Currency Reform, pp. 402-444. (A description of this plan and an account of how it worked will be found in above book.)

particular sections of the country where conditions are more favorable to such introduction and then gradually extending it to other sections until ultimately it should be in operation throughout the entire country. The main points of this direct reform of the Chinese currency system are aimed at securing a unified currency under a single unit on the basis of gold. This plan is similar to the plan employed in the Philippine Islands during the years 1903-1906 and is sometimes called the Philippine Plan.¹⁰

The above two major plans were contributed by Professor Kemmerer for the purposes of reforming the Chinese currency system, and each of these could be applied. Both, however, had the inevitable merits and defects should the Chinese Government really adopt them. Moreover, I am going to touch upon the conclusion of these two plans. So far as the indirect plan was concerned, in the early stages of its operation it would have less opposition on the part of vested interests and of the masses of the people than would the direct plan. But under the indirect plan, for instance, Sun Yat-sen dollar with which the Chinese public are more or less familiar, would be increased in quantities and would be gradually substituted in circulation throughout the country for other kinds of silver dollars. After the peaceful unification of Sun Yat-sen dollar in the entire country, the final step will be ready to put the

¹⁰. Kemmerer, E. W., op.cit., pp. 245-346. (A description of this plan and an account of how it worked will be found in above book.)

direct plan into operation. However, the first in the indirect plan would be expected less expensive than those of the direct plan, because there would be no immediate necessity of accumulating a currency reserve, or need for a large portion of loan, except possibly a modest silver dollars reserve to be used for redeeming fiduciary silver coins and coins of copper and nickel.¹¹

While it is quite sure at the very beginning that the indirect plan is much better than the direct plan, the advantages would be but temporary and would continue only as long as the country should remain on the silver standard. However, it has only one defect, namely, that it should require a long period to carry out the indirect plan. On the contrary, the indirect plan, like the direct plan, would meet at first public resistance to the introduction of new silver standard of the "sun" dollar. As we understood, there were many kinds of different fractional coins circulating in China, which were contained different fineness and weight but of the same denomination. The indirect plan of reform as well as the direct plan would probably need withdrawal from circulation of the existing un-uniform fractional silver coins. If the fineness of the minted new silver "sun" dollar is below the old coins, the Chinese public would like to sell or smuggle the old silver coins abroad as a commodity. To prevent this, the new silver "sun"

¹¹. The Commission of Financial Experts, op.cit., p.70.

dollar might be made nearly 100 percent pure. Then the Government would have a chance to lose much seigniorage profit. In both cases, it would encounter serious obstacles, even financial panic under the two plans for currency.

Theoretically, that the Kemmerer's plans and projects were sound enough needs no emphasis; needless to say, the direct plan would be preferable, as the past experiences always showed that it could be successfully put into operation. However, after the project has been handed over to the Minister of Finance for a year almost nothing has been done to put the recommendations of Professor Kemmerer's project in practice. Besides, it was evident that all such events as the Japanese aggression in Manchuria, the civil strife and flood in the Yangtze, and the Huangho, prevented the Kemmerer's project from being put into practice, as the political disturbances kept the Government busily engaged and the people struggling for subsistence, gave little time to think of currency reforms. Moreover, the Chinese public did not realize that the introduction of the gold standard system would not immediately improve the chaotic currency situation. And the Chinese public thought that in steady introducing the gold standard in China, it would be infinitely better to attempt a unification of the currency system in China first. Much can be reached in this direction with little difficulty and great benefit to the whole country. So the tael could be abolished, one uniform silver dollar could be circulated throughout the country, also the evil of the notes

issue in the cities of China could be controlled and eliminated. Because of such public reactions, the Ministry of Finance was impelled to give up the Kemmerer's projects. Finally, the Ministry of Finance took the emergency requirement to abolish the silver tael and create a first notable reform which has been adopted --- the uniform silver dollar as a national standard currency.

Chapter III

ABOLITION OF THE SILVER TAELS

The fact was undeniable that prior to 1933 a mixed system of silver tael, silver dollar and banknotes was used, while the latter notes were issued on the basis of the silver dollar coin minted according to the regulations of 1914.¹ So far as the silver tael was concerned, we will recall that there were hundreds of monetary taels in use throughout China, most of which existed in the shape of silver "shoe" or "sycee" of about 50, 10, 5 and 1 taels values. Some of them were inherited from ancient Dynasties; some of the taels were made by private firms without Government supervision and mainly according to the nature of traditional standard and customs of the locality. In the course of decades most of China's monetary taels disappeared from circulation by force of circumstances and without Government interference. By the close of 1933 only four kinds of monetary taels were still in use, namely, the Shanghai, Tientsin, Haikwan or Custom and Hankow sycee taels.

So far as the silver dollar was concerned, there were of different kinds of fineness and weight but with the same denomination in circulation. In addition to the Chinese-coined Sun Yat-sen dollars, there were Yuan Shih-kai dollars

1. Kann, E., op.cit., p. 159. (The silver dollar or Yuan weighted 27 grams, and had a fineness 988 percent.)

and dragon dollars which were named according to the various designs of the dollars respectively. Owing to the increase in circulation Chinese-coined silver dollars gained in popularity from year to year until their preponderance as currency unit become firmly established. Without official interference China arrived at a currency ratio of 90 to 10, the former figure representing the percentage of dollars minted, while the latter stood for taels held in banks' coffers. But actually the silver dollars were found of different fineness and weight which might not follow too closely the Government regulations. Even the small towns suffered from the lack of uniformity in currency system, not to speak of the system on the national basis. In general, silver dollars were used in the retail business and silver taels in the wholesale market. It ought to be considered that the inconvenient and confusing silver currency prevented greatly the development of national economy. For convenience sake and to unify the national currency system and thus to promote the national economic life, the abolition of the tael was called for. For another reason it might be asked why the sycee tael should be abolished ? Because it has outlived its usefulness. As a currency it cannot circulate and neither can it be transferred through banks into the interior of the country. The sycee tael is actually a remnant from the middle ages and as such, it is not adaptable to modern needs.

The question will be raised, would it be harmful to abolish the tael without replacing it by a reliable silver unit

of uniform weight and uniform fineness ? China, before 1935 has about 1,660,000,000 of silver dollars in circulation which did not distinguish themselves by uniformity in either design, weight or fineness. It is intended to dismantle the provincial silver mints and strike a new design national dollar to take the place of the conglomeration of previously old coined dollar pieces.

This aim can be realized only by melting up all the millions of formerly produced dollar coins and reminting them into the new design national dollar. Needless to say, owing to the need of providing for shortage in legal fineness or weight, multitudes of coins will have to enter the Shanghai Central Mint for transformation.

In July of 1932, the Minister of Finance appointed an honorary Committee whose task was to advise the procedure in connection with the proposed abolition of the sycee tael as currency in China. In the Spring of the following year, immediately after the practical investigation by this special Committee the tael was definitely abolished by mandate issued at the 31st meeting of the Central Political Council, the Minister of Finance and Special Committee. Then the Ministry of Finance declared that the tael had ceased to serve any useful purpose, and its continuation as a matter of habit and inertia had become a source of complication and needless confusion and expense to the public. The completion of the new modern Central Mint at Shanghai made it possible to adopt measures for issu-

ance of standard currency of assured uniform weight and fineness. As the basis for this reform the Government promulgated in 1933 the "Standard Silver Dollar Coinage Law", providing that the Yuan or new national silver dollar should have a gross weight of 26.6971 grams of silver 880 fine. That is, containing² 23.4934448 grams of fine silver.

An order of the Ministry of Finance was issued the³ summary of which appears as follows:

(I) Notice is hereby given that on and after April 6, 1933 all public and private financial transactions are to be made in terms of silver dollars and not in taels.

(II) All public and private obligations in Shanghai entered into in terms of taels and dated before April 6, shall be payable in dollars at the fixed rate of taels 71.5 to \$.100. All payments and receipts in taels in ports other than Shanghai shall first be converted into Shanghai taels at the exchange rate of April 5, and then into silver dollars at the fixed rate of Tls. 71.5.

(III) Those holding silver sycee may either present them over to the Central Mint for coinage into silver dollars or hand them to the authorized banks, the Central Bank of China, the Bank of China and the Bank of Communication for exchange into silver dollars.

2. China, Ministry of Finance, Annual Report for the 21st and 22nd Fiscal Years, July 1932 to June 1934, Nanking, China, 1935,

3. Ibid., p. 15.

Besides, the Chinese Custom had issued a full notice that beginning from April 6, 1933 an export duty on outgoing sycee or foreign bars was levied by the Chinese Custom --- Viz; $2\frac{1}{2}$ percent Ad Valorem, but silver dollars and mints bars (0.999 fine) could be shipped free of duty.

At the time of abolition of the tael in April 1933, arrangements were made whereby stocks of sycee amounting to Tls. 146,202,036.97 including 9,704 American bars,⁴ were registered at the Central Bank of China by all banking institutions in Shanghai --- both Chinese and foreign. These stocks of silver sycee are being converted through the Central Bank of China at the rate of 100 standard dollar equal Shanghai taels 71.5, dollars and other silver species being distributed month-⁵ly Pro Rata to the various banks. At the close of 1934, the the stocks had been reduced to approximately Tls. 27,400,000 (including 7,980 American bars), equivalent to about \$. 38,000,000. Part of the reduction, however, was due to exportation of silver and not to coinage. The monthly output of the mint has later been rated at approximately \$. 8,000,000., plus bank's reserve silver bars valued at about \$. 4,000,000. At this rate of conversion, present stocks of sycee and bank's reserve bars should be completed within a few months. Further production of sycee has been prohibited, the Central Mint at Shanghai having

4. American bars contain approximately 1,000 to 1,100 troy ounces, equivalent to roughly Tls. 1,000.

5. China, Ministry of Finance, op.cit., 1935, p. 15.

been ordered to close the provincial Mints. The measures taken constitute an important step toward standardizing the currency.

In general, the abolition of the silver tael in the Spring of 1933 was a notable reform. The transition to the new dollar basis proceeded smoothly and without any hardship to the business community or to the public. Furthermore the abolition of the silver tael in Chinese currency system undoubtedly was a great stride forward in the monetary history of the country. It resulted in the unification and the stabilization of the currency of a fairly limited degree in the Chinese financial situation. However, it is to be noted that both the new and the old system namely, the dollar system and the mixed form of tael-dollar system were on a silver standard. However, the price of silver was constantly fluctuating and proved to be somewhat uncontrollable by the Government Financial Authorities. Besides the appreciation and depreciation of silver currency were directly influenced by the upward and downward movements of the price of silver in London. Therefore with the above main purposes, the Chinese Government was seeking for the security in regard to the fluctuation of the price of silver, and a silver agreement was signed in London in the Summer of 1933 between the Governments of Austrila, Canada, India, Mexican, Peru, Spain and the United States of America.

(A) London Silver Agreement

As we understood, the theoretical difficulties of

the silver standard were overcome by the result of our experience in a period of less than a decade. Our domestic price and income structures were forced to undergo two main readjustments according to the revised price of silver, first in an upward direction between 1926 and 1931 when the price of silver declined by 53.8 percent in New York, and 49.7 percent in London and later in a downward direction since 1932.⁶ The fluctuations in the price of silver proved very disturbing to the normal functioning of our economic system. Fundamentally, it may be noted, as long as China was on a silver standard, the appreciation and depreciation of our currency system were directly influenced by the upward and downward movements of the price of silver in London.

In the Summer of 1933, while the World Economic and Monetary Conference was held in London and the Chinese Government took part in the Conference, a Silver Agreement was signed between the Governments of Australia, Canada, India, Mexico, Peru, Spain and the United States of America. This Agreement, since ratified, "provided that for four years beginning with January 1, 1934, India should not sell more than 35,000,000 fine ounces yearly on the average and not more than 50,000,000 fine ounces in any year;⁷ that Spain should not sell more than 5,000,000 fine ounces on the average during four years, and not

6. Lin, W. Y., New Monetary System of China, Kelly and Walsh Co., Shanghai, China, 1936, pp. 11-12.

7. Tang, L. L., China's New Currency System, Kegan Pual, Trench, Trubner & Co., London, 1936, Appendix A, Article 1a, p. 117.

more than 7,000,000 fine ounces in any year;⁸ that the Governments of Austrulia, Canada, Mexico, Peru and the United States of America should not sell any silver during the same period, and should in the aggregate annually purchase from the market 35,000,000 fine ounces of silver in agreed shares out of their own mine production;⁹ and that the Government of China should not sell silver resulting from demonetized coins during the period.¹⁰ The London Silver Agreement simply indicated that it was intended to bring about effective stabilization of price of silver.

(B) China Made Reservation

When the London Silver Agreement was under consideration, the Government of China informally called to the attention of foreign Governments the possibility of joint action to check the headlong fall of silver. Although efforts to achieve international co-operation have so far had little tangible result, the national Government is ready to co-operate in any practical measure of stabilizing the value of silver. Especially, the National Government on several occasions was in informal communication with the Government of United States regarded China's main interest in measures affecting the value of silver. The Government of China pointed out that any action

8. Tang, L. L., op.cit., Appendix A, Article 5, p. 118.

9. Ibid., Appendix A, Article 2, P. 118.

10. China, The Ministry of Finance, op.cit., 1935, p. 16.

resulting in a rise of China's currency out of relation to the price of world commodities would have deflationary effects in China, and would further decrease her already reduced exports and so impair her ability to purchase goods abroad. Also a rise of China's exchange would probably increase the heavy silver exports as a necessary means of settling large unfavorable balances of international payments. In view of China's interests in silver, the Government of China would be consulted in advance if measures concerning silver that might materially affect China's currency and exchange were in fact being contemplated.¹¹

Furthermore in ratifying this Agreement, "the National Government of China declared that as silver is the monetary basic of China, the Government of China will consider itself, at liberty to take whatever action it may deem appropriate, if, in its opinion, changes in the relative values of gold and silver adversely affect the economic condition of Chinese people, contrary to the spirit of stabilization of the price as embodied in this Agreement."¹²

According to this declaration, the Government of China requested all of the other seven nations to make a promise of agreeing, not to fluctuate the price of silver either downward or upward. This might affect the instabilization of the Chinese silver currency system. If this Agreement could be

11. China, Ministry of Finance, op.cit., 1935, p. 16.

12. Ibid., 1935, p. 16.

fully carried out, an insignificant fluctuation of price of silver would be observed and influenced by the different export and import duties. In other words, the reservation and security of the Chinese currency were made stabilized and balanced by the international silver agreement and international co-operations.

Chapter IV

Silver Currency Crisis

The abolition of silver taels and the unification of the national new standard silver dollar or Yuan in the Spring of 1933 which I fully described in the previous chapter, in short, the transition to the new dollar basis has proceeded smoothly and without hardship to the business community or the public. It ought to be noted, at the beginning of 1934, all the modern style Chinese banks have had their capital paid in dollars. Railway fares were payable in the same currency. Government loans within the country constructed in dollars and bonds were issued in the silver dollar basis. As the silver dollar gained in popularity, the mediaeval sycee tael was relegated to the background.

During the period under review, China in common with every other country suffered from the world wide economic depression, the general economic and financial situation unfortunately continuing to deteriorate. Especially the price of silver in terms of gold has fallen by more than half in the first two years of the unprecedented world economic crisis, seriously affecting all those who are involved in foreign trade, as well as creating difficulties for the government in decreasing imports to meet the growing cost of gold commitments. In fact, China was, until the second half of 1932, the only coun-

try which was not directly affected by the universal economic crisis. This achievements were due to mainly a mild currency inflation brought about by a heavy fall of silver values, and for the fact that the bulk of the population, have little to do with foreign trade. The sonsequences of the decline in the gold value of silver have fortunately not attained serious proportions, as the purchasing value of silver for commodities within the country has not depreciated very much.

In spite of the general depression and the lower level to which silver has fallen, its connection with the notion of "inflation" could be banished from our midst, since we enjoyed the benefits of a metallic inflation and not the evils succeeding a lavish issue of fiat money. China was then suffering from an oversupply of silver. The metallic inflation in China was not caused by artificial means. It came about in a natural manner through the fall in silver prices. Since China's currency was based on silver, the country was greatly benefited from the decline. As a direct result, internal wholesale commodity prices after rising for several years up to 1931 have been falling, and prices of leading commodities are greatly depressed. On the other hand, the depression has come to China¹ chiefly as a result of external forces affecting the country's economic life, notably the reduced purchasing power of other nations and the increasing value of China's silver currency in terms of leading currencies, influenced by the currency poli-

1. China, Ministry of Finance, op.cit., 1935, p. 2.

cies of the governments concerned.

The general downward movement of wholesale prices in China experienced a serious decline since the end of 1931, averaging for the six principal cities for which indexes are currently available at about 5% in 1932, 9.4% in both 1933 and 1934.

TABLE I
ANNUAL PERCENTAGE CHANGE OF WHOLESALE PRICES
IN CHINA SINCE 1931

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>
North China	- 7.9	-10.9	- 8.8	- 2.6
Shanghai	-11.3	- 7.7	- 6.5	- 2.5
Canton	- 0.4	- 9.2	- 9.6	-15.7
Hankow	- 1.8	-12.0	-10.3	0.3
Nanking	- 5.0	- 8.5	-12.6	- 0.3
Tsingtao	- 3.7	- 8.4	- 8.4	2.6
Average	-5.00	- 9.4	- 9.4	- 3.6

Source: Price Index published by the National Commission of Tariff in Shanghai.

The above table of the price movements in the depression years indicates clearly the disturbing and dislocating consequences of a fall in the general wholesale price level. It roughly amounted to 22.5% for North China and 26.7% for Shanghai.² Thus in fact, the waves of the first two years of

² Lin, W. Y., op.cit., p. 12

the world economic depression were kept away from our shores by the depreciation of the price of silver.

The happy situation suddenly came to an end as soon as the several commercially important countries went off the gold standard; since September 1931, silver at once began to rise in terms of sterling, the rupee, the Japanese yen and, later, the American dollar; while in terms of gold it continued to decline until 1935.

TABLE II
THE PRICE OF SILVER IN LONDON AND NEW YORK
1931-1935

Year	London Pence Per Standard Ounce (0.999 fine)	New York Dollar Per Fine Ounce (0.999 fine)
1931	14.7/16	28.700
1932	17.13/16	27.892
1933	19.1/16	34.727
1934	21.5/16	47.973
1935	29.3/16	64.675

Source: Lin, W. Y., The New Monetary System of China, Kelly & Walsh Co., Shanghai, China, 1936, p. 12.

The question will be raised why and what were causes for upward and downward movements of the price of silver, which in turn were the keystones of Chinese silver currency crisis. More details will be discussed in a later section.

(A) Fluctuations of Silver and Chinese Exchange

Since China was on a silver monetary standard, the exchange value of her currency fluctuated in sympathy with the price of silver. There was no fixed rate for foreign currencies. For instance, the price of silver per ounce in New York on any day, multiplied by the number of ounces of silver in the Chinese currency unit, determined the parity of exchange for the day. That is, the amount in U.S. currency which the Chinese unit would realize if melted and sold as bullion in New York. The actual exchange rate fluctuated within a range of a few percent above and below parity, corresponding to the silver import and export points.

After the Chinese Government adopted the standard dollar or "yuan" in April 1933, it weighed 26.6971 grams, 88% fine, and contained just over 3/4 of an ounce of fine silver. Hence the parity of exchange on any day may be found approximately by multiplying the New York price of silver on that day by 0.75, --- that is the value of the Chinese standard dollar is labelled 75 cents. According to past records, it was evident that when the price of silver fluctuated 60 cents per ounce, the exchange of Chinese standard dollar usually was between 40 and 50 cents U.S. currency.

The exchange rate shown below is in relation to the standard Chinese dollar. For the sake of comparison, figures prior to 1932 are converted into Chinese dollars from the ori-

ginal quotations in taels or Chinese ounces of silver.

TABLE III

VALUE OF CHINESE DOLLAR IN U.S. CURRENCY

<u>Year</u>	<u>U.S. Currency</u>
1925	0.55
1926	0.50
1927	0.45
1928	0.46
1929	0.42
1930	0.30
1931	0.22
1932	0.21
1933	0.26
1934	0.34
1935	
1st. Qtr.	0.36
2nd. Qtr.	0.40
3rd. Qtr.	0.37
4th. Qtr.	0.32

Source: Tang, L. L., China's New Currency System, Kegan Paul, Trench, Trubner & Co., London, 1936. pp. 105-106.

(B) Decline of the Chinese Trade by the Effects of Silver Exchange Fluctuations

The downward movement in the price of silver in the beginning of 1930 appeared first to be very harmful to the import trade, because it seemed likely to raise the price of all imports beyond the point at which China could afford them. On the other hand, in the general depression world commodity prices inevitably were falling to a lower degree. China was benefited in that many raw materials could still be imported at normal

prices in terms of Chinese currency. But the import trade in some consumers' goods; the world prices of which did not fall very much and for which domestic prices had once more to be increased with the fall in exchange rate, suffered considerably. Howeverm China's import trade as a whole declined no more than the world trade.

The Chinese export trade consisting of raw or semi-manufactured materials, such as silk, bean products, tea, vegetable oil and raw furs, followed the fall of world commodity prices. The low silver price made the export possible in the world market without lowering their price in domestic silver currency. In fact, one of the causes of the falling price of silver was the reaction between the Chinese internal prices and the world prices of the commodity which she exports.

The depreciation of silver resulted in two main changes in China's exports. At first, there was a steady increase in export totals, due to the favorable exchange which stimulated the manufacture for export before the world economic crisis brokeout; but when the depression came in the whole world, the reduction of foreign demand affected China's exports, and though the total quantity exported declined in 1930, the favorable exchange greatly mitigated this, and the total value of export was almost as high in 1930 as in 1929.

At the same time, the quantity of Chinese imports declined sharply in 1930 and a slight further decline occurred in 1931. Their monetary value however, increased, reaching the

highest point in the latter year. Reckoned in Chinese dollars, Chinese foreign trade in 1931 was the largest on record, though³ the quantity was less than in 1929.

The following table shows that during the years of depreciating silver and increasing exports, China achieved at times a favorable trade balance, and that on the whole, these were not seriously affected by the world economic crisis until after 1931. In that year the value of Chinese exports, Chinese imports and China's foreign trade in general reached the highest figure. The general trade balance for the five years 1927-1931 was favorable --- for the first time since 1876.

TABLE IV

CHINA TRADE BALANCE DURING 1927-1931

Year	Import	Export	Total	Trade Balance
1927	1,519,398	1,653,516	3,172,914	134,318
1928	1,793,953	1,799,308	3,593,261	5,355
1929	1,898,668	1,980,589	3,879,257	81,921
1930	1,964,634	1,973,128	3,937,762	8,494
1931	2,141,365	2,143,193	4,284,558	1,828

(Figures are in thousands of Chinese dollars of pre 1933 standard; the former Haikwan tael was equal to about \$ 1.50.)

Source: Tang, L. L., China's New Currency System, Kegan Paul, Trench, Trubner & Co., London, 1936, p. 48.

3. Tang, L. L., op.cit., p. 45.

The trend of China's foreign trade for the years following 1931 was complicated by many factors. The departure of Great Britain and other countries from the gold standard in 1931 raised the exchange value of the Chinese dollar, measured in sterling, yen and other depreciated currencies. This had a tendency to favor imports from and discouraged exports to those countries. Second in importance was the Japanese occupation of China's North-eastern provinces in the Autumn of 1931 on account of which China lost about one-fifth of total value of its exports of bean products. Another factor was the Japanese attack on Shanghai in early 1932, a war which lasted for many weeks and completely paralyzed shipping, commerce and industry at China's greatest port. Furthermore the world prices of silver ceased to fall in 1932, but world commodity prices continued their downward movement. Hence, the world trade as a whole declined by more than 60% between 1929 and 1933. Total figures of imports and exports amounted to U.S. \$ 68.641 millions in 1927⁴ and 39.726 millions in 1931, and only 24.179 millions in 1933. The Chinese index of export prices and export trades both began to fall in sympathy with the world trade decline. Also this general decline movement was caused by the abandonment by the United States of the gold standard in 1933.

With the depression influencing all countries, there was a reduced demand for China's products. Both export and import trade declined from 1931 to 1934 whether measured in

4. Tang, L. L., op.cit., p. 55.

decline in the price of agricultural products which he sold, while there was a less decline in the prices of commodities and labor for which he paid. There was also an increasing burden of taxes and interest which were fixed in terms of money. And with the decline of the foreign trade, hundreds and thousands of workers were unemployed. This chaotic condition was mainly influenced by the silver currency fluctuations.

(C) Deflation

During the past century China has naturally been connected with world commerce and world finance, the country being influenced by all world movements in the direction of monetary exchange. Silver was the most widespread monetary standard in the West and came to China in such increasing quantities that it finally became the standard medium of exchange. Up to 1870 most countries were on either a silver or bimetallic (both gold and silver) basis. Afterwards, the shift to a gold standard began to develop rapidly, and as a result of the decline of importance of silver in the West nations; it began to flow into China in increasing quantities. The purchasing power of silver in the world steadily diminished until 1885. From 1885 to 1931, the price of silver fluctuated due to special conditions, such as those prevailing during the World War I when the value of silver jumped considerably.

In spite of the World War I, there was a marked fall in the value and purchasing power of silver from 1885 to 1931.

For instance, the price of silver in London declined from 60.3 pence per ounce in 1872 to 50.6 pence in 1883, to 39.75 in 1892 and to 28.9 in 1894,⁵ and it fluctuated between 23 and 31 pence from 1894 to 1916. It jumped for a time during the World War I (partly due to Britain's temporarily abandoning of the gold standard), and gradually declined again until 1929, when it reached 24.5 pence per ounce. It dropped to a new lower price⁶ of 17.65 pence in 1930, and to 14.5 pence in 1931.

Having a clear picture of the deflation, one may ask how did it originate ? As we recalled, the world depression which came in 1929 brought a rapid decline in prices of goods in the world market. Wholesale prices in England dropped 16% from 1929 to 1930 and another 14% the following year. But in 1931, the general fall in prices of other commodities was greater than the fall in price of silver, so that the decline in the purchasing power of silver was checked somewhat.⁷ However, in September of 1931, Great Britain abandoned the gold standard, and the price of silver which had previously fallen more in England than in China immediately jumped in value and began to exchange at a much more favorable rate with the devaluated pound.

In December of 1931, the value of the Japanese yen began to decline in relation to silver. Owing to the heavy

5. Kann, E., op.cit., p. 161.

6. Chinese National Tariff Commission, Average of Monthly Quotations in Shanghai Market Prices Report, Shanghai, China, 1932.

7. Tang, L. L., op.cit., p. 42.

military expenditure, the reduction of the value of currency provided her with great advantages as manufacturing and exporting nation to the distinct economic disadvantages of her neighbour, China. Naturally, both the value and quotation of silver rose in relation to the yen and when in the last month of 1931 Japan also abandoned the gold standard, the purchasing power of the silver further increased in the world market. Therefore, a large quantity of silver was leaving China at the end of 1931.

Early in 1933 the United States abandoned the gold standard and joined Great Britain and Japan in the game of inflation and devaluation. As a result, the price of silver again rose in relation to the devaluated dollar. The purchasing power of silver rose further in China in 1933, commodity prices declining to nearly their 1927 level. The fall in prices was rendered somewhat less precipitous by the slight devaluation of the Chinese dollar --- the new national dollar minted in 1933 being a little below the previous dollar in silver content.

By the end of 1933 foreign exchange rate had changed in the direction of an increase of value of the Chinese dollar. The three most important foreign currencies in China's foreign trade and economy were worth 1s.4d., some 33 cents U.S. dollar, and over one yen in Japanese currency in exchange to one Chinese silver dollar respectively.

8. Tang, L. L., op.cit., p. 43.

Under the circumstances of this critical period, the purchasing power of silver whether in the United States, Japan or Great Britain was greater than it had been in the previous year and the same was true of China. Furthermore, so sensitive was silver in China to world influence that monthly changes in the purchasing power of silver in three countries were frequently reflected in corresponding changes in the general level of wholesale prices in China, particularly in Shanghai and Tientsin. Silver began to leave China in enormous quantities and price --- especially for domestic agricultural products --- fell rapidly. Hence the Chinese economic situation was harmed and would to be bankrupted by these causes. It was really the beginning of the silver currency crisis. The influence of silver purchasing policy of the United States Government in 1934 became immediately more serious, and will be discussed in the following pages.

Chapter V

American Action on the Silver Purchase Act

The chaotic development of the national economic life just described has only been caused to a slight extent by the reappearance of China's unfavourable trade balance, together with a moderate flight of silver. Hence, there was such a tendency to increase the general commodity price and the curtail domestic agricultural products. But the principal causes for China's currency crisis are to be found in America's action in regard to silver.

The following three outstanding proposals were made by the United States Legislators, for the purpose of the improvement of silver value, which have received sanction and consequently became the law --- much to the detriment of China's silver currency.

(A) The Amendment to the Farm Relief Act (Agrarian Law) of May 12, 1933. --- The terms of said Act empower the president of the United States to introduce bimetallic, and to accept silver installments payment of World War I debts at a price not to exceed 50 cents per ounce. After this Act had been carried into effect, the silver stock reserve in the United States Treasury would have been increased.¹

(B) The London Silver Agreement of July 20, 1933 ---

1. Lin, W. Y., op.cit., p. 13.

China was a lesser power at this Conference, with every political group working for its own interest, and showing no sign of real understanding of the complete economic interdependence of the modern economic world. The agreement reached aimed to increase the value and purchasing power of silver. This proposal, mainly to the advantage of the silver mining interest, was brought forward by the American Delegation. The United States is one of the greatest producers of silver, while China is one of the greatest consumers. A difference of interest was understandable. On the other hand, the United States Government declared a 25% of silver reserved for monetary stock. According to the above proposal, the United States Government desire for an open silver market and partial remonetization (with increased value), was in direct conflict with the Chinese desire for the² stabilization of price of silver.

The London Silver Agreement, "the principal silver holding countries bound themselves not to sell out of their monetary stocks, more than 40,000,000 ounces per annum within³ four years starting from January 1934. The great silver producing countries --- Australia, Canada, Mexico, the United States and Peru --- agreed to acquire from the mines of their own countries 35,000,000 ounces of silver a year, holding them for reserve, or agreed not to sell silver outside their borders, and to purchase or withdraw from the market 35,000,000 fine

2. Tang, L. L., op.cit., p. 65.

3. Ibid, Appendix A, The London Silver Agreement, Article 1(a), p. 117.

ounces of their own silver production annually".⁴ Unfortunately, on December 21, 1933 the United States Government ratified the London Silver Agreement, and agreed to absorb annually not less than 24,421,410 ounces of silver produced in the United States,⁵ the price to the seller being fixed at U.S. \$ 0.64 per ounce. Therefore, we can imagine that the silver price in United States market was greater than the Chinese silver quotation. Naturally, the huge amount of silver stocks were exported.

(C) The main factor --- The most important step in favor of silver --- and coincidentally against Chinese economy --- was the Act of June 19, 1934. A bill was passed by the Congress and signed by the President permitting the Chief Executive to nationalize silver stocks and the Secretary of the Treasury to purchase silver not only at home but also from abroad at his discretion.⁶ Also the President decreed that "silver was to be added to the existing treasury reserves, including silver coins already in circulation, until it reaches a ratio making it one-fourth of the total monetary stocks of silver and gold." This proposal meant that a large quantity of silver would have to be acquired either at home or abroad. And perhaps, the acquisition of silver was to continue either till the ratio one silver to three gold has been reached, or else, until the mint parity price of \$ 1.29 is prevailing.⁷

4. Tang, L. L., op.cit., Appendix A, The London Silver Agreement, Article 2, p. 118.

5. Ibid., p.65.

6. Ibid., p. 66.

7. Leavens, D. H., American Silver Policy and China, Harvard Business Review, Vol. XIV, No. 1, Autumn, 1935, p. 45.

In August 1934 the United States Government actually began to nationalize all private hoarding silver stocks (un-minted), fixing 50.01 cents per fine ounce as the price to be paid by the Treasury. In order to fulfill this requirement, the purchase of additional silver would be naturally acquired from abroad. Of course, the price of additional silver stocks were much higher than the current market quotation. Therefore, the world silver price rose, and China was faced a new crisis of her currency system due to the outflow of silver.

Chapter VI

The Outflow of Silver to Abroad

Britain, France, Japan and other countries whose currencies have long ceased to be dependent upon silver, regarded silver as a commodity like others. The purchasing power of silver in relation to other commodities, therefore, depends upon whether the value of silver is rising as compared with the value of other goods, for example; wheat, rice and so for. When the market price of silver is increasing more rapidly than the average market quotation of other commodities, silver is gaining in purchasing power. When the market price of silver is falling more rapidly than the market prices of other commodities, silver is falling in purchasing power. Such was the world monetary situation while the most of the nations were on the gold monetary standard. But in China before 1935, silver has been regarded as a main standard of monetary value. When the price of silver was lower than the price abroad, silver would be exported in huge quantity, and the national financial concern would be directly affected.

Since the Purchase Silver Act was adopted by the United States Government, whereby the Department of Treasury estimated to buy 1,100,000,000 more ounces of silver and assuming an average annual world production of 180,000,000 ounces of silver, it should take a minimum period of seven long years

for the United States to complete its purchasing Act. This assumption was based on China and India being able to retain the bulk of their silver holdings.

In the early part of 1934, the quantity of silver in Shanghai banks was more than one-third of the total held in China. According to an estimate by the Bank of China, silver stocks in the country amounted to some 2,500 million ounces, valued at 3,300 million dollars. The total silver coinage since 1895 amounted to some 2,153 million dollars, but provincial mints melted down some 267 millions, and another 268 millions was also minted down, leaving some 1,600 million dollars still in circulation.¹

During the first few months of 1934 there was comparatively little movement of silver export. The big increase started in June when the Silver Purchase Act was passed by the United States Government, providing for the acquiring of silver for the Treasury reserves. In June of 1934 the exports of silver from China amounted to over C.S. (Chinese Standard Dollar) \$ 12,000,000 and to nearly double that in July. In August the price of silver rose to 50 cents per ounce and nearly C.S. \$ 80,000,000 were exported and C.S. \$ 49,000,000 in September.² In September, however, the Chinese Government prohibited the purchase and sale of foreign exchange except for legitimate business requirement. But actually, when the artificial raising

1. Tang, L. L., op.cit., p. 70.

2. Leavens, Dickson H., op.cit., p. 53.

of the price of silver in the world market changed the situation, considerable quantities of silver were still shipped out of country by foreign banks, operating under extra-territoriality and claiming exemption from Chinese law.

Under the influence of the world depression, the rapidly growing disparity between agricultural and industrial prices after 1930 was reflected in the accumulation of silver in Shanghai. More silver was shipped to Shanghai from the interior than vice versa. On the other hand, in August 1934, the sudden shift was not due to the internal conditions, but mainly to the external. Most of the silver shipped from Shanghai to the interior found its way out of the country, and ultimately purchased by the United States Government. So that the estimation of net silver export in 1934 was \$ 257,000,000 of which five-sixths took place in nearly four months from the date of the American Silver Purchase Act to October 14, 1934. Therefore, Shanghai silver stocks declined from \$ 554,000,000 at the end of June 1934 to \$ 317,000,000 on December 27, 1934.³ Furthermore shipments of silver from Shanghai to other ports continued during 1935 down to the time of the decree of nationalization of silver stocks on November 3. The net export of silver figures shipped far exceeded that for 1934.

Silver has been inordinately governed by the American purchase power which seemed to dominate the entire world

1. China, Ministry of Finance, op.cit., 1935, p.17.

silver market. However, the American Government continued to purchase regardless of the serious effects of high and rising price of silver in China. Therefore the price for domestic silver was further increased to 77.57 cents an ounce on April 1935. At the same month, the world price of silver went up violently and rapidly until $36\frac{1}{4}$ d. was reached in London and 81⁴ cents in New York, the highest quotation since early 1921.

Reflecting in part the depreciation of foreign currencies and in part the artificial and independent rise of silver, the exchange value of the Chinese dollar has increased steadily in terms of the sterling, the rupee and the yen since 1931 and finally, of the American dollar since 1933. The tendency towards a higher and rising exchange continued into 1934-1935. Chinese exchange has appreciated under the influence of depreciation of foreign currencies in 1932-1933 and in 1934-1935 of the appreciation of the monetary standard as well. Since 1931, it has been entirely artificial and unsupported by our balance of international payments, and it was also highly unfavorable to our exports and deflationary on our prices. It was obvious that the artificial raising and rapid appreciation of silver resulted in the inability of our exchange of foreign currency. Moreover, the rise of silver abroad was more than that of China exchange before October 14, 1934 and the bullion value of the Chinese silver dollar abroad exceeded its exchange value in China by more than the shipping expenses. The follow-

4. Lin, W. Y., op.cit., p. 14.

ing table shows the percentage deficiency of the rates of exchange at the opening of the market as compared with the theoretical parity of the Chinese dollar based on the price of spot⁵ at London.

<u>Month</u>	<u>Percentage</u>
July	4.13
August	5.08
September	4.31
October (1st to 9th)	4.98
10th (holiday)	- -
11th	5.31
12th	8.88
13th	9.72

Therefore, the differential between the external price of silver and our rates of exchange resulted in as unusual export of silver through smuggling which seriously diminished our silver monetary reserves. And the artificial rising exchange was doubly deflationary; directly, through the appreciation of the monetary standard, and indirectly, through the contraction of the credits basis.

Moreover, the terms of the London Silver Agreement provided "that the Chinese Government should not sell silver from demonetized coins"⁶. While at the beginning of the American silver purchase program; the Chinese Government have suggestion for direct sales of silver by the Chinese to the United States Government for gold. But the United States Government did not favour China's suggestion. However, this suggestion did not prevent the subjects of extra-territorial states from exporting

5. China, Ministry of Finance, op.cit., 1935, p. 15.

6. Tang, L.L., op.cit., Appendix A, The London Silver Agreement, Article 4, p. 118.

silver from China mainland and shipping it to the United States through London, largely via Japan and Hongkong. Actually, the large quantities of silver purchased by the United States Government was brought from London. But knowing that London is not a silver producer, the silver sold in England must have been imported from abroad. It was true, during 1934-1935 70% of the American purchase of silver were from England, but at least two-thirds of the British imports were either from China direct, from Hongkong, or from Japan.

The annual report published by Messers. Handy and Harman of New York shows that "China has been the greatest source of silver from 1934, 300 million ounces having come from China's monetary stocks. Unallocated supplies amounted to 160 million ounces during 1935. It was estimated that 190 million ounces were sumggled out of China in that year."⁷

⁷. Tang, L. L., op.cit., p. 73.

Chapter VII

China's Reaction

The general economic and financial condition has unfortunately continued to deteriorate under the influence of the world depression with great hardship to all forms of economic activity. Domestic prices have been falling since 1931, and prices of leading agricultural commodities are greatly depressed. Moreover, the general purchasing power has rapidly declined also. The depression has come to China mainly as the result of external force affecting the national economic life, notably, the reduced purchasing power of other nations and increasing value of China's silver currency in terms of three leading currencies (Japanese yen, United States dollar and Sterling) which was influenced by the Currency policy of the governments concerned.

Since American Silver Purchase Act of June 19, 1934 went into effect and unprecedented drain of silver from China had in August already reached enormous proportions. On August 19, 1934 the Chinese Government was tied by the promise of the London Silver Agreement. The Minister of Finance sent a message to the President of United States calling for suspension of further purchase of silver. This the United States Secretary of State replied said that "the silver purchase program was embodied in an act of Congress which was mandatory as to its

general objective upon the Executive. Also that under the Act, the Secretary of the Treasury was required to purchase silver until it made one-fourth of the total monetary stocks.¹

On October 12, 1934 on receipt of this communication, it was evident that for the protection of her currency and her price level, the Chinese Government could hope for nothing from the American Government. The Chinese Government following a twenty-four hours conference and full consultation with leaders of business and finance immediately took action of its own, it announced a duty on the export of silver of 10% (less $2\frac{1}{4}\%$ in the case of silver dollars and mint bars which had paid that amount in seigniorage), together with an equalization charge.² The equalization charge was to be adjusted daily so that with the duty it would jsut make up for any discount of the exchange rate below parity, and so make the export of silver unprofitable. Moreover, the Foreign Exchange Stabilization Committee was formed in order to fix the equalization charge and to prevent undue fluctuations of exchange rates. In other wards, it was a measure of official control of foreign exchange, and aimed to separate China's currency from world silver price.

Since the Chinese Government's adoption of equalization duty on silver went into effect, exports of silver fell off smoothly and were at the rate of about C.S. \$ 12,000,000 per month in November and December. The result of official con-

1. China, Ministry of Finance, op.cit., 1935, p. 16.

2. Ibid, Annex --- Document Relating to the Silver Situation, pp. 19-20.

trol of foreign exchange was successful. On the other hand, there was still a large scale of silver smuggled from Shanghai to the British colony of Hongkong and Japan, operating under the extra-territorial foreign banks because China was a lesser power nation. The very profitable unlawful trade continues to some extent up to the end of 1935.

While announcement of the silver export was never regarded as a fundamental solution of the nation's monetary problem, it was impossible to prevent large scale smuggling of silver. The rate of foreign exchange still rose to over U.S. \$.42 cents in the Spring of 1935 as compared with highest rates of about 38 cents in the first half of October 1934. Silver being silver, its rising value abroad tended to increase its value in China even though exportation was prohibited. And also deflationary forces continued to operate --- in Shanghai the index of wholesale commodity prices declined from 99.9 in February to 90.5 in July 1935.³ Therefore, money was extremely tight by the above reasons. The national economic situation was most critical due to the continued tightness of money as reflected in the decline of stocks, bonds and real estate (both Chinese and foreign), business closures and unemployment became widespread.

The Government was therefore forced to take further action for the purpose of preventing further economic deterioration. Finally the Government ordered that the bank of China

3. China, Ministry of Finance, Annual Report for the 23rd Fiscal Year, July 1934 to June 1935, Nanking, 1936, p. 13.

and Bank of Communications be nationalized and brought with the Central Bank of China as a group of three state governing banks. It set additional \$ 25,000,000 of Treasury notes for the purpose of extending loans to assist deserving businesses, industrial and banking institutions to tide over temporary difficulties. Also in order to ease credit situation, measures have been taken to encourage reimportation of silver.

However, the result appeared quickly that regardless such serious decree of the Government has issued, it could only check the Chinese speculators, temporarily stabilize the price level, and slowly recover the destroyed businesses within the country.

Further rise of the price of silver in the New York caused the continued heavy drain of silver from the country. The export undoubtedly operated by the extra-territorial foreign subjects or banks, and caused increasing economic difficulties in China. The wholesale prices in Shanghai which in February 1935 stood at nearly the 1926 level, had by August dropped to 91.9 percent of this level, and by September to 91.1 (as compared with 97.3 in September 1934).⁴

Moreover, it was already becoming evident that lower exchange rates would have to be established in order to improve the national economic and monetary situations. The various devaluated currencies of other countries had by no means achieved a new stability in relation to gold and silver. As long as the

4. Tang, L. L., op.cit., p. 76.

value of currency remained high, deflation would continue and conditions would become intolerable. It was true that a shilling was worth almost 90 cents (Chinese currency) at the end of 1931, but fell to less than 60 cents by the latter part of 1935. The Japanese yen had also fallen from about \$ 1.25 in 1932, after abandoning gold, to 70 cents by the latter part of 1935. The United States dollar dropped from about \$ 3 at the end of 1933 to \$ 2.50 by the latter part of 1935.

In view of this situation, the Chinese Government was actually struggling to maintain a strict silver standard currency within the whole nation. Not only would China have to take steps similar to other governments to abandon silver and to reduce the exchange value of her currency in order to achieve stabilization of monetary value, the emergency reform of currency system and nationalization of silver was also called for.

Chapter VIII

Notable Reform

As already noted, many leading nations has abandoned the gold standard currency since 1931 and the rapid rise in the world price of silver made China's silver currency seriously overvalued. Furthermore the heavy internal deflation and outflow of silver stocks followed immediately after the American Silver Purchase Act. During the latter part of 1935, the Chinese economic situation was more critical than ever before, with growing unemployment, widespread bankruptcies, drain of silver and depletion of currency reserve. These highly disturbing and depressing factors were complicated by the people's psychological uncertainties and lack of confidence. On the other hand, it was impossible for the National Government to check the drain of silver from China so long as the metal continued to circulate freely within the country. The simultaneous presence of all these difficulties was bound to make impossible the continued trust in the free and automatic silver standard. Finally the Chinese Government was faced with no alternative but to abandon the silver standard.

Shortly after the Minister of Finance made a statement on the currency situation, many people believed that the Government would soon take action to reform the silver currency system. On November 3, 1935 the long dream true, as the nation-

al government issued a new decree for the silver currency reform. Effective on the day following, banknotes issued by the Central Bank of China, Bank of Communications and bank of China should be full legal tender throughout the country to be used in payment of all public and private obligations.¹ Use of silver for currency purposes was not only punishable by confiscation of the whole amount seized, but regarded as acts of treason against the Republic.² Banks, firms and all other public and private parties holding silver dollars or bullion were required to hand them over to the Currency Reserve Board, or its agent banks,³ for exchange of legal tender notes at par.

The Currency Reserve Board shall be formed to control the issue and retirement of legal tender banknotes, and to keep custody of reserves against outstanding banknotes.⁴ The specie reserves of various foreign and Chinese commercial banks were handed over to the three state banks for custody. The reserves requirements were fixed at 60% cash, gold, silver and or foreign exchange and 40% other securities issued or guaranteed by the government. To complete the work of internal reform, it was decided that for the purpose of keeping the exchange value of the Chinese legal tender at its present time level, the Central Bank of China, the Bank of China and the Bank of Communications should buy and sell foreign exchange in unlimited

1. Currency Reserve Board, The New Monetary Policy of China, Shanghai, Janurary 15, 1936, Article 1, p. 4.

2. Ibid., Article 1, p. 4.

3. Ibid., Article 4, pp. 5-6.

4. Ibid., Article 3, p. 5.

⁵
quantities.

In view of above regulations, the foreign banks realized their diversified interests and smuggling of silver were incompatible; there was only one alternative --- for instance -- to cooperate with the Chinese new monetary policy. Finally, the friendly attitude of Great Britain as evidenced by an order-in-Council, signed by the British Ambassador, Sir Alexander Cadogan, and posted at British Consulates and British banks in China helped work out this new policy. This order referred to the Chinese Government's decree "prohibiting and making illegal the payment in silver of any obligation in China, and thereby extending the prohibition to all British subjects in China under penalties"⁶. Besides, most of the foreign banks automatically turned in their silver holdings to the depositories in the three leading state banks under the control of Currency Reserve Board for the custody of reserves against legal tender notes.

However, the Japanese banks were the only important group which refused to co-operate with the National Government's new monetary policy due mainly to the loss of their silver business. In Shanghai, an endeavour was made to establish the Japanese yen as the currency for local Japanese business, evidently using the quantity of Japanese yen in Chinese hand as a result of Japanese smugglers' purchase of silver. Early in Jan-

5. Currency Reserve Board, op.cit., Article 6, p. 6.

6. China, Ministry of Finance, op.cit., 1936, p. 14.

urary 1936 various Japanese shops and enterprises began quoting prices in yen, and accepting payment in Japanese currency. The great inconvenience of this plan, however, made its failure a certainty. Japanese business transactions continued to be carried on principally in Chinese currency, the use of the yen⁷ being mainly nominal.

Due to the great influence which the American Silver Purchase Act had over the monetary situation in China, the attitude of the United States was considered more important to the Chinese new monetary policy. As already noted, the two Governments extended diplomatic correspondence regarding silver during 1934.

After the visit of the American Economic Mission to the Far East in 1935, the Chinese position due to the unfavorable effects of the American silver policy upon China was made fully clear to the American representatives. In November the negotiations of two Governments were completed for the sale of 50,000,000 ounces of silver to the United States Treasury to acquire the U.S. dollar reserves for China at then prevailing⁸ world price for silver, which was about 65 cents for ounce. And in December a modification American policy was made, the American Government reduced its buying price for silver, with the result that the silver dropped at New York from 60.3/4 to 51.3/4 cents per ounce (the lowest it had been since October

7. Tang, L. L., op.cit., p. 96.

8. China, Ministry of Finance, op.cit., 1936, p. 15.

10, 1934) in one week (December 14th to 21st.).⁹ These two measures were much appreciated by the Chinese Government. The United States policy has been of the greatest assistance in maintaining the stability of the new currency and in gaining the confidence of the public in the early month of the reform.

At the beginning of 1936, China held as reserves not only hundreds of millions of dollars worth of silver but similar reserves of foreign exchange as well. With this strong financial foundation, it could work with full confidence in the adjustment of its new national currency to the requirements of China's economy. It was evident that the adoption of the reform program has checked the deterioration of the economic situation. Then the price level of domestic goods has begun to show a smooth rise. The average of Shanghai wholesale prices recovered from 90.5 in July and 94.1 in October 1935 to 103.3 in November 1935 and to 106.1 in June 1936.¹⁰ The stabilization of foreign exchange also made possible some revival of China's export, in spite of the general world depression.

For the first time in its history China has adopted a truly national monetary policy. This policy cannot at once bring general prosperity to the whole country, but it was a great advance in the direction of a sound monetary system to improve the nation economic activities.

China also greatly appreciated the timely action of

9. Tang, L. L., op.cit., p. 90.

10. China, Ministry of Finance, op.cit., 1936, p. 15.

the American authorities and other nations, which has materially contributed to the successful stabilization of China's currency as well as of silver. The advantage was not only to the Chinese people but also the those of other nationalities trading with and having interests in China.

Chapter IX

FINDING AND CONCLUSIONS

For an understanding of the past situation in the monetary system of China, it is important to have a general idea of its historical development. Four thousand years ago, the main currency value of China consisted of the rounded shells known as cowries. Gradually, these were replaced by copper hole coins, which in turn gave way to minted coins. Before silver came into use as a common currency in China, banknotes were first issued against iron or copper. Prior to 19th century, copper was the principal currency and standard of value in China, and even before the Chinese Government had abandoned the silver currency system, the copper coins remained the most widespread currency among the mass of the Chinese people. Silver came into use more than six centuries ago. In the past two centuries principally as a result of foreign trade and the consequent bringing in of great quantities of silver from abroad, it became the main standard of value in China until 1935.

It was evident that prior this half century, China can hardly be said to have had any national monetary policy. There were hundreds of monetary taels in use throughout in China, and, there were different kinds of silver dollars of different fineness and weight but of the same denomination in circulation. Some war lords, governors or their military and civil successors at times even issued fiat currency. Further-

more the powerful private banks issued paper money only for circulation within a certain district. Such activities were for their own purposes and were not guided by any considerations of national economy, or common welfare. Since the establishment of National Government, China's national monetary system was based on the silver standard.

The world general depression and the appreciation of silver in terms of the foreign currencies (the pound sterling, yen and U.S. Dollar), and the conflict with Japan over Manchuria and Shanghai destroyed China's trade and revenues in the subsequent years. There were two remote causes, namely, currency disturbance and political failure. Immediately following the enactment of Silver Purchases Act of the United States Government, its big purchases of silver at artificially high prices pushed China's situation near the verge of economic panic.

However, with much appreciation of friendly cooperation by Japan, England and the United States, the Chinese Government apparently decided to abandon its national silver currency. On November 3, 1935, the Chinese Government issued the Emergency Decree which provided for the nationalization of silver, and for making the notes issuing of the three government banks (Bank of China, Bank of Central China and Bank of Communications) the full legal tender. It also provided for the centralization and control of notes issued with reserves in the hands of the Currency Reserves Board for the maintenance of exchange stability. It was evident that the Government's adop-

tion of this program has restored economy and has caused material improvement. Also the satisfactory results of the developments following the new monetary reform seemed to point positively to a gradual restoration of public confidence. A remarkable stability of exchange was shown in that beginning from the week November 4, 1935 the Chinese dollar in Shanghai was quoted at $1\frac{1}{2}$ - $1\frac{1}{2}$ d. without any variation.¹ The average wholesale prices also recovered rapidly together with other economic activities.

In spite of the great progress made after the currency reform, the previous use of silver standard has handicapped the national government in both its national economy and international trade after its establishment.

Although silver was abolished under the Emergency Decree, we cannot delude ourselves that the reform was deep-rooted. In fact we may find the following conclusions.

It ought to be found out that the new currency policy aimed ^{at the} to halt of the circulation of silver to increase that of legal tender, and to raise governmental revenues. At the same time the selling of silver abroad helped stabilize the exchange value and reduce the unfavorable trade deficit and international debts. Therefore the real purpose of the new currency is to tide over the financial difficulties in the balance of payments, and not to encourage productive enterprises and

1. Lin, W. Y., op.cit., p. 131.

market recovery. The new system was not based on the country's economic strength, but rather on the value of its foreign exchange, although China's currency has been unified under the new currency system, China's currency has lost its independence. In other words, since the currency reform in 1935, China has entered into the sterling bloc. The Chinese currency was pegged at the rate of ls. 2 $\frac{1}{2}$ d. and was controlled by the English pounds.

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ABSTRACT

The brief historical development of Chinese ancient currency for thousands of years can only briefly be sketched here. Four thousand years ago the main original standard of value consisted of the rounded shell known as cowries, which constituted China's earliest currency from the coast, and was used throughout the Yellow and Hwai river valleys. The character representing the cowrie existed in most words referring to value, price, buy, selling and so for, as well as "tribute" and other expressions.

In the beginning of the Chou Dynasty the cowries had been to a large extent replaced and supplemented by metal--particularly tokens of bronze and copper came into existence. There were various forms of metal tokens, including "spade money", "knife money", "bronze rings" and so for, as well as some rounded forms made on the model of cowries. A simple form of flat coin finally survived as the most common currency, the coins being perforated so they could be strung together in the same way as cowries. Inscribed coins were being made in the seventh century B.C., with a square hole in the center permitting them to be strung together. These square hole coins about an inch diameter had long been the most common medium of exchange. They were usually made by guilds, town councils, or other corporations rather than Imperial Government. They were not minted, but cast in moulds. They are partly still used in some districts of the

country inland, though mostly replaced by the minted copper coins in past few decades.

The minting of copper coins began towards the early of the 19th century, these coins usually being worth 10 "cash" or inscribed square "hole coins". They were originally intended to be equal to one cent, 100 of which making a silver dollar, but large scale production by several provincial mints in course of time reduced the value to more or less the intrinsic value of their copper contents in relation to silver.

The beginning of Chinese silver currency in the 13th century was in the form of silver ingots, the weight of fineness of each ingot being recorded on its face. A standard weight of about 50 liang (1 liang equal 37.8 grammes) became customary. Each ingot, before circulated, was weighted and assayed by the public assay-office, a very reliable institution free of state control, and possessing the full confidence of the business community. But a liang of silver although not coined became a unit of value, circulating either in the form of ingots or held as reserve against paper money representing a given weight of silver. The liang is also a kind of standard weight which varies in every city in China, and therefore, the fineness of silver in the ingot also varied.

With the growing volume of trade during the past few centuries, the Carolus (silver) dollar was introduced into China by Spanish traders. Shortly thereafter it became the general currency for China's domestic and international transact-

ions. The Mexican dollar began to be coined in 1824 and it reached China in 1854. Due to the shortage of Carolus dollars (the minting of Carolus dollar had ceased in Mexico), Mexican dollar became widely spread to replace the Carolus dollar. By 1911 the number of Mexican dollar circulating in China had reached some 500 millions, and the liang of silver, as a unit was automatically beginning to disappear.

The Canton Viceroy began in 1889 the minting of Chinese silver dollars, bearing the emblem of the dragon, as the symbol of the Empire and also coined "dragon dollars". However, the lack of control resulted in debasement and consequent loss of public confidence, and the Mexican dollars remained of first importance until the downfall of the Manchu regime. Since the establishment of the National Government, the new republican dollar began to be minted. The minting of the new Sun Yat-sen dollar in 1927 was the beginning of a new national currency. In five years over 500 millions of these dollar were minted, then the Chinese dollars became common throughout the country.

Simultaneously, paper money was issued in China at least as far back as in the ninth century. The Tang Dynasty and the subsequent dynasties had issued the paper money to represent either copper or silver due to the inconvenience for considerable commercial transactions or for remittances. For instance, during the Manchuria Empire fiat money was issued to raise funds, but popular resistance made this of little value, and finally forced its discontinuance. The notes had sunk to

three percent of their face value before they were finally repudiated. In general, this issue of paper money by irresponsible autocratic government has had no favourable results from the view point of the common people or the business community. Since the establishment of the National Government, there was a tremendous variety of paper money, mostly representing silver or copper, which were issued by native banks, provincial banks and private banking cooperations, and even by thousands of exchange shops, mercantile establishments, large and small. While some issued paper money had very little metal backing, the value of notes fluctuated with the relation of copper to silver and the exchange rate between one form of currency and another from day to day.

Since the National Government came into power in 1927, control of banking was extended not only by the promulgation of new rules and regulations for the privilege of issuance of notes, but also for increasing participation in bank-enterprises. The currency situation was undeniably controlled.

Gold, though scarce in China, has occasionally been used as currency in the country, notably under Wang Mang in 10 A.D. and the Taiping Government at Nanking eighty years ago. The latter issued the Taiping gold Liang coin as bearing a fixed relation of 25 silver taels to one Taiping gold tael. Ten years after the Taipings and at the time of the great Moslem revolt against the Manchus, a gold coin was introduced by the rather short-lived regime in Chinese Turkestan.

Under the Republic some encouraging attempts were made to establish a gold coinage, but the coins minted in Tientsin and elsewhere disappeared when the metal increased in value after the World War I. Besides, the gold medallions or coins were issued only in celebration of memorable events, and ranked merely as souvenirs.

When the Western world turned increasingly towards gold as a standard currency, China's currency still was based on silver. The value of silver and its depreciation or appreciation were dominated by the London silver market and could be maintained at a standard price. Besides, Chinese Government was engaged to pay the enormous indemnity and other duties on the gold basis. The national finance was faced with this extraordinary complicated situation. A Commission of foreign financial experts headed by Professor E.W. Kemmerer was appointed by the National Government in 1929 to study currency and financial conditions in China. After almost a year's work, the Commission issued a report,-- "project of law for the gradual introduction of a gold standard currency system in China", declaring it imperative that China should change to the gold standard system and proposing permanent retirement from circulation of currency and the introduction of a uniform gold currency for the whole country. Needless to say, the plan was sound enough, but finally the plans and projects were not adopted due to their impracticality under existing circumstances.

Before 1933, silver has served as the principal me-

dium of exchange between Chinese people. Under the tael system, silver was used in varying weight and fineness by different localities; finally the tael system was abolished in the spring of 1933 by the "Standard Silver Dollar Coinage Law". Instead of the tael system, the law created the Yuan as the standard unit. The Yuan was to have a gross weight of 26.6971 grams of silver 880 fine--that is containing 23.493448 grams of fine silver.

Due to the world economic crisis in every country, Britain, Japan and American abandoned gold for paper. Later on with the inauguration of the Silver Purchase Act in the United States of America. The United States Treasury became a large buyer of Chinese silver through London and other centers; almost several hundred million ounces of silver was poured into the United States of America. The Yuan silver standard could not be maintained at a level, and at that time China was forced to abandon the silver standard. On November 3, 1935, the Chinese Government at last passed the "Emergency Decree" by which all the coin and other metallic currency were withdrawn from circulation. After the Emergency Decree, the new paper currency had shown a period of steady expansion, and China since then has been on a managed currency basis up to the end of World War II.

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